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Nonpractice of Multiparty, Parliamentary System

93CM0272A Beijing ZHEN DI [FRONT] in Chinese
No 2, 10 Mar 93 pp 27-30

[Article by Zhou Chunyuan (0719 2504 0337): "Socialist China Will Absolutely Not Practice a Western-Style Multiparty and Parliamentary System—Learning From the Experience of the 14th CPC Congress Report"]

[Text] Comrade Jiang Zemin pointed out in his report to the 14th CPC Congress that: "Our political reform objective is to establish a socialist democratic government with distinct Chinese characteristics, absolutely not to practice a Western multiparty and parliamentary system."

Why will socialist China not practice a Western multiparty and parliamentary system? This is a matter of principle, about which I am presenting my personal views below.

I

The capitalist political-party system takes the three forms of one-party, two-party, and multiparty, mainly the last two. The multiparty system consists of regular competitive elections among multiple parties, with the winning party or coalition of parties becoming the ruling administration, such as in France and Italy. And the two-party system refers generally to two major monopoly-capitalist parties taking turns at administration through competitive elections, such as in Britain and the U.S. Multiparty countries make up the majority of the developed capitalist countries in today's world.

While it cannot be denied that the capitalist political-party system has played a historically progressive role in the revolutionary struggle against feudal autocratic rule, by representing and reflecting bourgeois interests and needs, the aim of the capitalist multiparty system is certainly not to proceed from the basic interests of the masses of working people, by changing their oppressed and exploited political and economic status, but rather to reorganize the various interest-group relations within the capitalist class, thus reconciling the class conflicts in capitalist society, in order to achieve the basic aims of consolidating bourgeois political rule, covering up the essentially bourgeois dictatorship, and developing the bourgeois economy.

While some in China believe that "the Western multiparty system suits the needs for democracy," China's practice of "multiparty cooperation under the leadership of the Communist Party is undemocratic," "the current reform and opening mean that we should draw on the experience of the Western multiparty system," and "China must practice either a Western multiparty system or a one-party one," these beliefs are absolutely mistaken.

Political-party systems are of a class nature. This so-called "Western multiparty system suits the needs for democracy" actually means that it suits the needs for

democracy of only the bourgeoisie, certainly not the needs for democracy of the working class and masses of working people. The belief that China's practice of "multiparty cooperation under the leadership of the Communist Party is undemocratic" is also wrong. We must neither regard the "leadership" of the Communist Party as undemocratic, or confuse "multiparty cooperation" with "multiparty competition." While "multiparty competition" is the basic form of the capitalist political-party system and the essential characteristic of capitalist democratic government, "multiparty cooperation" is a genuine part of China's socialist political-party system and a fundamental feature of socialist democratic government with distinct Chinese characteristics. The leadership of the Communist Party is a reliable guarantee for both the practice of multiparty cooperation and socialist democratic government. Practice has proved that the leadership of the Communist Party not only ensures all democratic parties—just as the Communist Party—organizational independence, political freedom, and legal equality within constitutional limits, in order to genuinely achieve political consultation, democratic oversight, and participation in political and legislative affairs, but also fully guarantees full democratic rights politically to all nationalities and strata of people throughout China based on constitutional and legal provisions and observance of the basic principle of democratic centralism.

While our reform and opening mean that we naturally need to learn from all countries throughout the world all things that are valuable and useful to us, such as developed capitalist countries' science, business management, and administration, we have no need to learn the Western multiparty system, as it does not suit China's conditions. China's people's democratic dictatorship was established only after leadership by the CPC of all nationalities throughout China in a protracted revolutionary struggle against and victory over imperialism, feudalism, and bureaucrat capitalism. The CPC is the leadership core of Chinese socialism. It is only our system of multiparty cooperation under the leadership of the Communist Party that is suited to China's national conditions, historical factors, and immediate realities, as well as to China's state system and form of government. It contributes both to socialist economic and cultural development and socialist democratic and legal construction, as well as to the establishment of socialism with distinct Chinese characteristics.

China practices neither the Western multiparty system or a one-party system, but rather a socialist political-party system with distinct Chinese characteristics, i.e., a system of multiparty cooperation and political consultation under the leadership of the CPC, which can be abbreviated as CPC-led multiparty cooperation. This system has the following three implications: 1. The political relations between the Communist Party and the democratic party groupings are ones of the leader and the led, not of one side renouncing leadership and the other rejecting it. 2. The working relations between the

Communist Party and the democratic party groupings are ones of political consultation and democratic oversight, not competition and taking turns at administration, and even less so one-party administration by a ruling party and multiparty opposition by the parties not in power. 3. The relations between Communist Party leadership and multiparty cooperation mean both Communist Party leadership and multiparty cooperation, not simply leadership without cooperation or vice versa. This political-party system of China has the following incomparable advantages over the Western one: it contributes to the accelerated development of a socialist economy with distinct Chinese characteristics; it helps to enhance the development of the socialist spiritual civilization; it promotes the establishment of socialist democratic government with distinct Chinese characteristics and speeds up the peaceful reunification of China; and it strengthens the leadership of the Communist Party over Chinese socialism.

It needs to be noted that some in Western countries often slander China's political-party system as "one-party autocracy" or "one-party dictatorship," which is aimed at distorting and attacking the socialist political-party system with distinct Chinese characteristics. The concept of a CPC-led system of multiparty cooperation and political consultation is a comprehensive concept and correct expression of the socialist political-party system with distinct Chinese characteristics, as well as delineating its essence. In other words, it provides a basic response to questions about the nature, substance, and form of China's political-party system. As multiparty existence, multiparty cooperation, and participation in political and legislative affairs by the democratic party groupings in this sense are certainly distinct features of the socialist multiparty system, the socialist political-party system with distinct Chinese characteristics falls essentially within the scope of a socialist multiparty system.

In this sense, as China's political-party system is also a multiparty one, the stand for the practice of a Western multiparty system violates China's founding principle of the four basic principles, so is unconstitutional. This is precisely why Comrade Jiang Zemin pointed out that we will absolutely not practice a Western multiparty system.

II

And we will absolutely not practice a Western parliamentary system. This so-called parliamentary system is an organizational form of Western political power, i.e., the form of government in capitalist countries. It was established after the success of the bourgeois revolution based on the doctrine of the "separation of (the three) powers" of bourgeois statesmen and thinkers. The parliamentary form of organization is generally made up of one or two bodies whose names vary by country. Britain calls them the House of Lords and the House of Commons, the U.S. and Japan call them the Senate and the House of Representatives, while France calls them the Senate and the National Parliament. These two bodies

each have legislative power, as well as representative, deliberative, and oversight authority. In addition to these two bodies, parliaments also have committees in areas, such as standing, temporary, full-house, and unaligned, which are generally under the control of multiparty leadership to control parliamentary actions.

At the time of the bourgeois revolution, the capitalist parliamentary system was the battle flag behind which the bourgeoisie seized power, and a sharp weapon that drove the masses in their struggle against feudal autocracy, playing a historically progressive revolutionary role. During the age of laissez-faire (nonmonopoly) capitalism, it played positive roles in areas, such as developing capitalist democracy, overseeing government implementation of bourgeois policies, consolidating bourgeois revolutionary results, safeguarding the capitalist political system, and developing the capitalist economy. But as the form of government in capitalist countries, the parliamentary system represents and safeguards the basic interests of the bourgeoisie, reflecting its real nature as a bourgeois dictatorship. By the age of capitalist monopoly in particular, parliaments had become ornaments for flaunting democracy, with the parliamentary system turning into a tool of monopoly-capitalist rule, having even more of a deceptive and oppressive nature in the areas of legislation and policymaking.

On one hand, monopoly capitalism used the principle of "separation of powers," through a division of labor in state organs, to stabilize the powers of various interest groups, reorganize relations within the ruling class, and achieve its basic aim of consolidating bourgeois rule. On the other, it raised the flag of "parliamentary democracy," exploiting its features of members being publicly elected and parliaments having the power to legislate and oversee government, to persuade members that they were representatives of "the interests of all the people," an expression of the heart of "the public will," a mark of "sovereignty residing in the people," and a symbol of so-called "democratic equality," which it used to deceive the masses, reconcile the antagonistic class conflicts between labor and capital, and cover up its real nature as a bourgeois dictatorship. This shows that not only does the parliamentary system not eliminate the real nature of bourgeois republics as organs of class repression, but it rather precisely exposes this real nature.

Some believe that our political reform means practicing "separation of powers" and a Western parliamentary system. This is due not only to their lack of a clear understanding of the real nature of the bourgeois parliamentary system, but also to their misunderstanding of the basic distinction between China's people's congress system and Western countries' parliamentary system.

The people's congress system is China's basic political system. The crucial substance of this system is that all power in the PRC belongs to the people. People's congresses are made up of delegates elected by the people, being organs that exercise state power on behalf of the

people. They not only are suited to China's state system, but also are most capable of ensuring that the people exercise the power of being the masters of their own fate, control state and social enterprises, and run economic and cultural affairs. They exercise the principle of democratic centralism, with all state executive, judicial, and procuratorial organs at all levels being elected by local people's congresses, as well as being responsible for giving work reports to them and being subject to their oversight. All local organs of state power are subordinate to central state organs and, under the leadership of central state organs, fully reflect the positive role of local state organs.

China's people's congress system has not only the common characteristics of all socialist political systems, but also its own distinct features, in that: it proceeds from China's actual conditions of a vast territory and large population, by appropriately expanding the authority of the NPC's standing body, i.e., the Standing Committee, thus effectively and regularly carrying out tasks, such as legislation; it proceeds from China's actual conditions of being a multiethnic country, by practicing a nationalities region autonomy system, thus better ensuring that minority nationalities are the masters of their own fates, achieving nationalities equality, and promoting local economic and cultural development; it proceeds from China's actual conditions of relying on and uniting the people throughout China, by practicing a Communist Party united front policy and establishing the CPPCC, thus better displaying its special key role in national political life; it proceeds from China's reality of the existence of many democratic party groupings, by adopting a policy of "longstanding coexistence, mutual oversight, utter devotion to friends, and shared honor or disgrace," thus putting joint efforts into socialist modernization; and it proceeds from China's particular historic and immediate realities, by practicing a policy of "one country, two systems," in order to contribute to the great cause of China's peaceful reunification, and to ensure the political stability, economic prosperity, and social development of Hong Kong, Macao, and Taiwan.

Longstanding practice shows that China's people's congress system has even greater superiorities, in that it not only helps the people of all nationalities throughout China to exercise the power of being the masters of their own fates, by taking a direct part in the democratic management of national economic, cultural, and social affairs, in order to fully display mass initiative and creativity, but also ensures that China will carry out smooth political reform, by constantly promoting socialist democracy and the development of legal institutions, in order to better consolidate China's form of government of people's democratic dictatorship. In particular, it drives our reform and opening and the improvement of China's economic system, by speeding up socialist economic development, enhancing China's overall national might, and steadily raising our people's living standards.

All of this shows that China's people's congress system is essentially different from the capitalist parliamentary system, in that its historical conditions, economic foundation, representative class substance, basic founding principles, expression of truth, and developing historical trends all differ. This means that it will be only adhering to and constantly improving China's people's congress system that will ensure the successful accomplishment of China's socialist modernization and the consolidation and development of socialism.

As China is a socialist country with a people's democratic dictatorship, the Western parliamentary system is unsuited to China. China already has a people's congress system that is far superior to the parliamentary one. If we abandoned our people's congress system that is a superior system of democratic government and suited to China's realities in favor of the capitalist parliamentary system, i.e., used the Western parliamentary system to replace China's people's congress system, that not only would violate the will of the people of all nationalities throughout China and conflict with the Constitution of the PRC, but also would amount to a historical retreat that would necessarily have harmful consequences.

Memorandum on Anti-Leftism Harshly Criticized

93CM0295A Beijing ZHENLI DE ZHUIQIU
[PURSUIT OF TRUTH] in Chinese
No 4, 11 Apr 93 pp 18-21

[Article by Zhang Decheng (1728 1795 2052): "Views on Anti-Leftism Memorandum"]

[Text] The book *Memorandum on Anti-Leftism* edited by Zhao Shilin [6392 1102 2651] was published and sold by the Shanxi Shuhai Publishing House in October 1992. While this book is a collection of works whose contents are diverse and whose articles all differ, it merits a close look.

Before analyzing the contents of this book, it is necessary first to mention an advertisement used to promote it. It is unnecessary to reprint the whole ad, as the following excerpts from two of its paragraphs will do for the time:

"Literary giants have joined hands for the first time to put out this *Memorandum on Anti-Leftism*."

"The 'leftist' poison that has been a bane to our country for so long is growing in intensity in the wake of the Cultural Revolution. Clowns are climbing the rafters and pirates are bringing chaos to the country, frenziedly resisting reform."

While it is true that the authors of the collected works in this book include "literary giants," they also include those who added fire to the flames of the political disturbances in 1989 and who have long preached bourgeois liberalization and openly published articles supporting upheaval. The collected works in this book also reflect the political stands that they have adhered to all

along. This article will not analyze these stands in detail, but rather will simply present certain views on three of them.

I. An All-Out Rejection of Socialist Public Ownership and Its Dominance. One of this book's authors says that "such public ownership is the basis for a few getting wealthy under particular conditions, but for general poverty under ordinary conditions." (See p 18.) What is the actual theory and factual grounds for this statement? The author does not say. According to this argument, our socialist state-owned economy actually becomes a monopoly-capitalist economy under the control of a few Western magnates! Moreover, this statement totally writes off China's great accomplishment in socialist construction in the four-plus decades since the founding of the PRC. Who can deny that without our socialist state-owned economy, how could the 1.1 billion people of all nationalities throughout China have basically satisfied their food and clothing needs and be making great strides toward comparatively well-off lives? This author also "criticizes" a so-called "leftist" stand in a RENMIN RIBAO article, saying that "no matter how it is reformed and opened up, the dominance of public ownership will never change." (See p 19.) It is well known that China's development of socialism with distinct Chinese characteristics during the initial stage of socialism will long practice the coexistence and codevelopment of diversified economic components along with the dominance of socialist public ownership (including adherence to mostly distribution according to work). As this principle is written into our Constitution and party constitution, as well as being set forth in 14th CPC Congress documents, can these all be called "leftist?" This is not a debatable issue, but rather a fundamental matter of principle as to whether one supports or rejects China's socialist system. It needs to be clarified that any so-called reform that rejects socialist public ownership and its dominance (including distribution according to work) is absolutely not the socialist reform under the leadership of our party of the self-improvement and development of the socialist system. As far back as 28 September 1986, Comrade Deng Xiaoping asked at the Sixth Plenary Session of the 12th CPC Central Committee: "What sort of a thing is this liberalization? It is actually an attempt to steer China's current policy onto the capitalist road. The leading exponents of this ideological trend want to steer us toward capitalism." It is thus obvious that the stands advocated in *Memorandum on Anti-Leftism* are certainly not new ones, but rather nothing more than further examples of this important judgement by Comrade Deng Xiaoping.

II. An Advocacy of the So-Called "Assimilation Theory" To Abolish Proletarian Revolution and Disintegrate Socialism. Another of this book's authors says that "as capitalism includes planning and control to prevent anarchy, and socialism introduces market forces to enhance its internal vitality, both of which are attempts to promote sound economic operations, the assertions of both the death-knell of capitalism and the disintegration

and deterioration of socialism are nothing but superficially-clever propaganda gimmicks. If the reasoning of the human race is not completely biased and duped, coming centuries might find a more rational way to live. Social progress is expressed not only in the enrichment of material and spiritual lives, but even more so through the ability of the human race to adapt to various challenges and resolve them in a distinctively humane manner." (See p 26.) While it might be original to say that the capitalist "inclusion of planning and control" can "prevent anarchy," why does this author, on absolutely no historical or practical grounds, turn a blind eye to the cyclical economic crises that occur in the capitalist world every few years or decades? As to the statement that the socialist economy's "introduction of market forces" can "enhance its internal vitality," this is precisely a goal that socialist reform hopes to achieve. The crux of the matter lies in the author's comment that capitalism's "inclusion of planning and control" and socialism's "introduction of market forces" will ultimately "find a more rational way of living," i.e., that "a distinctively humane manner" will resolve the current world's basically irreconcilable conflict between capitalism and socialism. This "theory," which has been preached all along by some in Chinese theoretical circles for a dozen years or so, is modeled on the Western so-called "assimilation theory." This author goes on to ask, "since capitalism is not afraid to be 'assimilated' by socialism, why does socialism fear 'infiltration' by capitalism?" (See p 26.) As the Western bourgeoisie has never wanted to be "assimilated" into socialism, this author's advocacy of capitalist "infiltration" into socialism is actually his true aim and unequivocal stand. This author also says that the so-called "ultimate goal" (referring to the ultimate Communist struggle objective of realizing a communist socialist system—my note) is a "leftist" term "designed simply by dogmatists, which could not necessarily be realized in the best of all possible worlds, and might even have the worst consequences." (See p 27.) This author's view is that the law of the historical development of human society of "the inevitable replacement of capitalism by socialism through a long course of development" (quoted from Comrade Deng Xiaoping's southern-tour speeches in early 1992) is essentially nonexistent, and that the realization of communism is a "leftist" position, meaning that the so-called "resolution in a distinctively humane manner" is nothing more than letting Western capitalist superpowers annihilate socialist countries, in order to ultimately achieve the so-called great unity of monopoly-capitalist rule of the whole world. Moreover, this "assimilation theory" of the two systems is actually a fantasy preached and "designed simply by" Western monopoly capitalists and their advisers. Even more absurdly, this author still tries to console the people of socialist countries and the masses of oppressed peoples and nationalities throughout the world, by saying that "some people getting wealthy first throughout the world also conforms to law." (See p 28). This author actually gives a new definition to Comrade Deng Xiaoping's "getting wealthy first," calling the exploitation and pillage of the people of

all countries throughout the world by a handful of monopoly capitalists "getting wealthy first," and even going so far as to say that it "conforms to law." If such statements are allowed to stand, then the peoples of all countries might as well forget struggling to acquire and defend democracy, independence, and socialism! Such absurd theories are truly rare indeed.

III. An Opposition to the Struggle Against "Peaceful Evolution." One article in this book says that "since the drastic changes in the Soviet Union, they (referring to the people who have been smeared as some sort of 'leftists,' but who actually are adhering to the party's basic line and the four basic principles—my note) have felt even more of an inclination to fight the enemy 'selflessly,' so have sounded the alarm and raised a great cry against peaceful evolution, simply showing clearly that they are running a 'high fever and cranking up the temperature.'" (See pp 27 and 28.) Another author writes: "While all know that Mao Zedong's ideological theory on opposing and curbing peaceful evolution was the key grounds for his line on taking class struggle as the 'key link,' with this theory and this line being inseparable, those who adhere to the 'leftist' stand and view still reassert the correctness and immediacy of this theory of Mao Zedong." (See p 187.) Our party and Comrade Mao Zedong have always emphasized that opposition to "peaceful evolution" is aimed at Western hostile forces. We oppose their use of a so-called "peaceful" strategy to infiltrate and overthrow socialist countries, by "fighting a gunpowderless war." But as these authors actually call prevention of and opposition to "peaceful evolution" "leftist," it is thus obvious what their stands and views actually are! The "peaceful evolution" strategy practiced by Western hostile forces against socialist countries is the product of a new form of international class struggle since the end of World War II, which is a longstanding objective fact, as well as the set strategy of Western hostile forces, which absolutely does not weaken or change because the leaders of Western countries do. Precisely the opposite, the Western hostile forces seem to have acquired a certain inspiration from the sharp changes in Eastern Europe

and the breakup of the Soviet Union to adhere to and press on even more sharply with their "peaceful evolution" strategy, which shows up as increased aggressiveness. Who can deny that this is the current political situation! This author not only opposes the struggle led by our party against "peaceful evolution" directed at hostile Western forces, but even ridicules it as "running a high fever, and cranking up the temperature." I would ask, who is he really speaking for, and whose interests does he actually represent? Strangely enough, a welcome for and defense of the "peaceful evolution" strategy pursued by hostile Western forces has certainly appeared recently. For instance, someone writes openly that: "It is necessary to overcome a psychological barrier, i.e., the mindset of turning pale at the mere mention of the terrible term 'peaceful evolution.' And as 'peaceful evolution' is actually a synonym for 'reform,' basically not a man-eating tiger, what is there to fear?" (See WEILAI YU FAZHAN [FUTURE AND DEVELOPMENT] magazine, No 5, 1992.) It is thus obvious that this author believes that China's reform and "peaceful evolution" are synonymous, which fully illustrates the type of reform that he really stands for! And if it is pointed out that this view helps hostile Western forces carry out their strategy of "peaceful evolution" in an attempt to overturn our socialist system, how will this author then explain himself?

While this is enough to show clearly the type of political stand that certain authors in *Memorandum on Anti-Leftism* are actually pushing, it still merits noting that the ads for their book use alarming words, such as "clowns are climbing the rafters and pirates are bringing chaos to the country, frenziedly resisting reform"! Who actually are these "pirates" who are "bringing chaos to the country" and "resisting reform"? While they do not say clearly, their attack on the struggle against "peaceful evolution," and their key principles and terminology, such as "the two reform stands," "the leadership authority of the party and the state at all levels is necessarily controlled by loyal Marxists," and "the key political standing of established enterprise party organizations," which are all attacks on "leftists," make it very clear whom they are actually referring to.

NATIONAL AFFAIRS, POLICY

Enterprises To Reform Accounting System

93CE0507B Beijing ZHONGGUO JINGJI TIZHI
GAIGE [CHINA'S ECONOMIC STRUCTURE
REFORM] in Chinese No 4, 23 Apr 93 pp 40-42

[Article by Wu Hongguang, of the Department of Policies, Laws and Regulations of the State Structural Reform Commission: "The Enterprise Financial Accounting System of Our Country Will Undergo Major Reforms"]

[Text] **Editor's Note:** Beginning 1 July this year, China will use a new enterprise financial accounting system. In this article, I will briefly outline the main contents, and significance of the adoption of the system, an important system which will affect the business activities of tens of thousands of enterprises. This author seriously suggests that in order to ensure the implementation of this new system, the tax rate applied to the state-owned enterprises be reduced from 33 percent at present to around 25 percent, so as to give some breathing space to the state-owned enterprises which can thereby be reinvigorated. [end editor's note]

From the second half of this year onwards, the Provisions on Enterprise Finance (the Provisions for short) and the Enterprise Accounting Code (the Code for short), which have been promulgated with the approval of the State Council, will be effective nationwide. This is an important aspect of the efforts to put into actual effect the Transformation of the Operating Mechanisms of Public-Owned Industrial Enterprises Statute (the Statute for short). The establishment of the new enterprise financial accounting system in accordance with the Provisions and the Code will be a structural change achieved in the process enterprise reform in China.

The implementation of the newly promulgated Provisions and Code is to lead to the establishment of an enterprise financial system appropriate to market economy by totally giving up the planned economic system, in accordance with the goal of establishing a system of socialist market economy in China and with the objective of transforming enterprises' operating mechanisms.

The new financial system will disregard the differences between enterprises with regard to ownership status, and contain uniform standards governing the financial accounting system of enterprises of various types. This will facilitate equal competition. Compared with the existing system, the new system mainly contain the following changes:

—*Changes in the calculation basis used by financial accountants of enterprises.* In the old way, in making calculations, financial accountants of enterprises would use the equilibrium formula of "sources of funds = funds utilized." The use of funds is dependent on the sources of funds. This practice shows the

undiversified nature of sources of funds under the planned economic system and the strict control exercised by plans over the use of funds. However, the new enterprise financial accounting system uses the equilibrium formula of an enterprise's "assets = liabilities + owner's equity," thus completely changing the basis of calculation so as to adapt to the system of market economy. At the same time, this change can also eliminate the past problem of the balance sheet not showing an enterprise's real situation of profits and losses.

—*The establishment of the capital-maintenance system.*

The new enterprise financial accounting system has provisions on legal capital, that is, an enterprise's registered capital. The assets-related profits, losses, depreciation, and withdrawals occurring in an enterprise's business activities will no longer automatically mean increase or decrease in the enterprise's capital. This is totally different from the practice of increasing or decreasing the state's capital because of those occurrences under the old system. In this way, the system ensures the integrity of the enterprise's capital and the owner's equity.

—*The removal of boundaries between various kinds of internal funds used by an enterprise in its business operation.*

The existing enterprise financial accounting system puts an enterprise's internal funds into such categories as state fixed fund, state circulating fund, enterprise fixed fund, enterprise circulating fund, and the various special-purpose funds. The different categories of funds are used for different purposes. Each fund is used for a special purpose and put into a special account, and cannot be put to other uses. This method shows the direct management exercised by the state over enterprises, and constrains the development of production. However, the new system has broken down those boundaries, and will no longer put funds into different categories according to the natures of the funds and the purposes for which the funds are to be used. This practice will facilitate the improvement of enterprises' efficiency in the use of funds, and give enterprises complete right of use over their own funds.

—*Changes in the method used for calculating enterprises costs.*

Under the old system, enterprises in China use the method of total cost, representing overly detailed management of costs; as too many things are included, this method is prone to hide losses. The new system uses the internationally used method of manufacturing cost, and only the costs equivalent to the workshop costs under the old system are counted. At the same time, enterprises are allowed to retain some funds to be used as reserves to cover bad debts; thus the internationally accepted prudent principles are being followed. Such a situation is helpful to both enhancing enterprises' market awareness and risk awareness, and eliminating the problem of false profits and hidden losses; in this way, the system can

make enterprises truly market-oriented, thereby transforming the enterprises' operating mechanisms in a fundamental way.

- The use of enterprise-accounting report forms which are in accord with international practices.* Under the old system, the enterprise-accounting report forms are designed to serve mainly the needs of the state's macroeconomic management, but not based on considerations of the interests of those who have invested in the enterprises and the creditors. There are too many indicators, generating too much information, and there is no way of conducting horizontal comparison. The new system uses a system of enterprise-accounting report forms consisting of such forms as the statement of assets and liabilities, the statement of profits and losses, and the statement of change in financial position. This system is in accord with the practices used in countries around the world, and is helpful to the full utilization of the financial accounting information of enterprises.

The implementation of the Provisions and the Code can play at least the following effective roles in doing a good job of giving real effect to the Statute, and in establishing an enterprise system appropriate to the system of socialist market economy:

- Clarifying assets relationships, so as to protect the rights and interests of the owners, thereby contributing to the effort to make enterprises real market actors.* The new system has clear provisions on capital funds, and applies the principle of capital maintenance. Regardless of the state of business of an enterprise, the owner's equity always equals enterprise assets minus liabilities. That is, an enterprise's assets, if not in the category of the creditors' claims, would be in the category of the owner's equity. The assets relationships would thus become very clear. Such a situation can facilitate the owner's supervision over an enterprise's performance in maintaining and increasing the value of assets, so as to safeguard the legitimate interests of the owners. Meanwhile, it is also helpful to the establishment of an effective system for managing the work of maintaining and increasing the value of state assets.
- Giving practical meaning to enterprises' independent responsibilities for profits and losses.* The new system uses the system of registering enterprises' capital. This system provides both the prerequisite with which enterprises can achieve legal person status, and the precondition under which enterprises can assume independent responsibilities for profits and losses. When an enterprise makes profits, the owners will get their due gains, depending on the amount of their equity; when an enterprise makes losses, the owners' equity will be reduced; when an enterprise faces liquidation because of insolvency, the enterprise's investors would only assume limited liability which is confined to the enterprise's legal capital. In this way, the practice of state-owned enterprises "assuming civil

responsibility on the basis of the state properties that they manage" is put into use.

- Having the system reflect enterprises' various financial authorities.* An important aspect of giving real effect to enterprises' autonomy concerns financial authority, that is, the right of use over funds. The new financial accounting system has totally removed restrictions on enterprises' use of funds. Enterprises can use the funds they have for expenditures that they deem necessary. In this way, the system gives real effect to the Statute's provision that an enterprise "has the right to independently determine the purposes for which the funds resulting from the retention of after-tax profits should be used and the ratio between the funds used for various purposes," thereby giving real meaning to the enterprise's status as an independent commodity producer and business operator.

- Providing more objective criteria for evaluating enterprises' performance.* With the use of the internationally used method of manufacturing cost, product cost is composed of only direct materials costs, direct wages, and manufacturing expenses. Sales expenses, administrative expenses, and financial expenses are directly counted as part of current profits and losses, but no longer counted as part of product cost. Whether the products are sold or not, the current situation of profits and losses can be accurately and truthfully shown. This method can help enterprise operators achieve timely understanding of the situation of profits and losses, so as to enhance their sense of urgency and crisis in regard to reducing costs.

In view of the current state of the state-owned enterprises in China, there can occur some new circumstances and problems in the process of implementing the Provisions and the Code, and serious efforts have to be made to resolve the problems. Some ideas in this regard:

- On the rate of enterprise income tax.* The Provisions and the Code use the method of separating taxes from profits. But, a current obstacle to the separation of taxes from profits is the overly high income-tax rate of 33 percent, representing a tax burden much higher than the actual tax burden on most enterprises. It is hereby suggested that while implementing the new system, the tax burden on state-owned enterprises be reduced, by reducing the tax rate to around 25 percent which is rather appropriate.
- On enterprises' right of use over funds.* Under the new financial accounting system, there will be no restrictions on enterprises' use of their own funds. As long as enterprises have funds, they can independently decide to use the funds for capital construction, the development of production, technological renovation, debt repayment, replenishing circulating funds, wage disbursements, etc. Presently, China does not yet have very effective means of macroeconomic regulation and control, and enterprises, as business operators,

have not yet become very familiar with the competitive environment of market economy. Therefore, it is proper to consider formulating some relevant policies, so as to, on the one hand, strengthen the state's macroeconomic regulation and control, and, on the other hand, help enterprises make good use of the right of use over their own funds.

—*On the contract responsibility system of management.*

The contract system is the enterprise management method used by most of the state-owned enterprises in China; it has played a very positive role in the economic structural reforms, especially the enterprise reform, in China. It is proper to be concerned about what impact the adoption of the new financial accounting system will have on the contract system. Most enterprises like the contract system, because the enterprises can gain enterprise management autonomy by accepting contracts on "fixed basic targets." Our phrase, "contracts enlivens the situation," refers to the fact that after accepting management contracts, the enterprises would acquire due autonomy on the use of funds, and can thereby increase their economic efficiency. Under the new financial accounting system, enterprises will have autonomy even without accepting contracts on the basic targets. Even more importantly, as enterprises will no longer be constrained by the fixed tasks which "do not change for a number of years," they will have more autonomy and flexibility in production and business activities. This is undoubtedly a positive development, in the eye of the enterprises which are soon to become "commodity-producing businesses equipped with independent responsibilities for operation, profits, losses, and development, while exercising self-restraint in accordance with the law.

—*On the profit rate of enterprises.* Under the new enterprise financial accounting system, only manufacturing cost is counted as product cost. The sales expenses, administrative expenses, and financial expenses incurred by an enterprise are directly counted as part of current profits and losses. As a result, an enterprise is very likely to have a lower ratio of profit to cost as well as a lower ratio of profit to output value. Such a development can exacerbate the problems of low efficiency and shortage of funds currently experienced by state-owned enterprises in China. Even if we are determined to establish the new enterprise financial accounting system at the cost of a reduction in fiscal revenues, it would still be necessary to study the issue of, and consider adopting, prudent transitional measures.

It is hereby suggested that the channels used for collecting taxes from state-owned enterprises be standardized. In view of the need for uniformity in financial accounting of the various enterprises and in view of the distribution priority concerning after-tax profits, it is proper to have a state-owned enterprises' income-tax rate of 15 percent, and to have a rate of 10 percent

applied to the benefits distributed on the basis of the equity of the assets. In this way, standardization can be more or less achieved.

At the same time, it is proper to consider refraining from collecting, for a certain period of time, the 10-percent benefits due the owner of state assets, so as to give some breathing space to state-owned enterprises which can thus be reinvigorated. This is the conduct of the owner, and will not damage the conditions for equal competition in a market economy.

—*On maintaining and increasing the value of state assets.* Under the new enterprise financial accounting system, there will be two developments concerning the equity of the owner of state assets:

First, the new financial system clearly provides the priority sequence regarding the distribution of after-tax profits: fines, funds for covering losses, lawfully retained surplus funds for common accumulation, retained common welfare funds, and benefits for investors. In this way, if nothing or little is left of the after-tax profits after turning parts of the profits into funds for covering the operational losses and the retained funds for common accumulation and common welfare, then there would be no or little benefits to be distributed to the investors, that is, the benefits distributed on the basis of equity of the owner.

Second, under the new system, the owner's equity equals an enterprise's assets minus liabilities. Thus, if, in business operations, an enterprise increases its liabilities such as debt burden at a rather high rate, and increases wage (including bonus) disbursements at an excessively high rate, while not doing well in terms of profit increase, then the owner's equity is likely to be gradually reduced. Such a situation can very well happen, in view of the current state of state-owned enterprises in China.

To deal with the possibility of these two situations, it is necessary to establish, as soon as possible, the procedures, and a system, of state assets management, which will have as their goal the maintenance and increase of the value of state assets. According to preliminary deliberations, it is necessary to clearly stipulate that the concept of value maintenance should refer to the situation where a state-owned enterprise increases the value of the owner's equity at a rate not lower than the interest rate of bank loans, and that the concept of value increase should refer to the situation where the rate of increase in the value of the owner's equity is higher than the interest rate of bank loans; otherwise, value maintenance and value increase would just be empty words. In this way, it is possible to gradually transform state asset management from being carried out in the form of materials management into being carried out in the form of value management.

PROVINCIAL

Technology Export Development Strategy Reviewed

93CE0502A Guangzhou GUANGDONG DUIWAI JINGMAO [GUANGDONG FOREIGN ECONOMIC RELATIONS AND TRADE] in Chinese
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[Article by Liu Wenyan (0491 2429 3508) and Ouyang Suiqing (2962 7122 4482 7230), affiliated with the Guangdong Foreign Economic Relations and Trade Commission's Technology Import-Export Office: "Guangdong's Technology Export Development: Strategy and Countermeasures"]

[Text] The rise of high-tech industries in the 1990's, which is changing the industrial structure, as well as speeding up economic conversion per se and expanding international trade growth, is turning technology trade into an even more important part of today's international trade. Technology exports not only can accelerate the development of foreign economic relations and trade, but also can increase diversified market share. Technology exports are a key measure of a country's overall might, as well as a priority of international trade competition, as the future of world trade will be a new age focused on technology and technology exports.

In a decade-plus of reform and opening, Guangdong Province has made great foreign trade advances, ranking first in China in the use of foreign investment, the import of technology, and in trade exports. If Guangdong is to realize Comrade Deng Xiaoping's strategic aim of overtaking and surpassing Asia's "four little dragons" in the next two decades, it will have to rely on scientific progress and vigorous development of technology exports, in order to push its foreign economic relations and trade to new heights. Guangdong's technology exports should take the following development strategy and key countermeasures.

I. Development Strategy Options

1. A Strategy of Promoting Exports With Technology

Exporting software alone brings very limited economic efficiency, which China's technology export history shows fully. As our technology exports from 1979 to 1987 were mostly software, our foreign trade turnover for those nine years amounted to only \$180 million. We changed this after 1988, spurring exports of complete sets of equipment and project contracting with technology exports, sharply raising our trade turnover to \$280 million in 1988, \$880 million in 1989, \$990 million in 1990, and \$1.27 billion in 1991. This included deals for complete sets of equipment in 1991 worth \$1.16 billion, or 91 percent of all contracts.

S&T is the primary productive force, of which technology is a key part, as an expression of a medium between workers and the means of production. Taking

technology exports as the vanguard in breaking into international markets, to promote exports of machinery and electronics equipment, products, and labor, as well as overseas project contracting, is a successful international experience and customary practice in developing technology exports. Reports show that every dollar of technology exports by developed countries promotes \$50 of exports of equipment and products. This means that in the course of developing technology exports, we will have to develop the promotional impact of technology exports as much as possible, by closely combining technology exports with things, such as product and labor exports, overseas project contracting, and even overseas factories, in order to make technology exports Guangdong's key means of expanding foreign trade and increasing export earnings.

2. A Multilevel Export Strategy

Due to the specialization in the international division of labor and production, as well as the varying scientific development levels of all countries, the international technology demand and supply structures are multilevel. This means that we will need to adopt a multilevel technology-export development strategy. We should develop multilevel technology exports aimed at the varying technology demands of different countries (regions).

We can now provide the following levels of technology exports:

- (1) **Advanced industrial (manufacturing) technology.** This means high-tech industrial technology. While we now still have little such technology, as we rely on S&T advances to gradually push forward with the implementation of our national economic development policy, Guangdong is going to provide increasing amounts of high-tech industrial technology for export. For instance, Guangdong exports to developed countries (regions) technologies, such as large-bore well-drilling and riverbed water-purification technology, full-model shipbuilding technology, external counter-pulse and emergency heart pacemaker technology, electromagnetic-wave karst-survey technology, and kitchen waste-water purification technology, all of which meet advanced international standards.
- (2) **Mid-level industrial technology.** This is Guangdong's technology dominance, as well as our richest technology-export source. This technology is characterized by features such as maturity, applicability, and low price, being able to promote large-scale exports of complete sets of equipment, raw materials, or intermediate products, as well as overseas project contracting and labor exports. Mid-level industrial technology exports bring marked economic efficiency. For instance, technologies, such as small hydropower and cement-production technology, fan, TV, and clothing production technology, ethyl

alcohol, citric acid, and coconut-milk beverage production technology, and antimony powder (stibophen) production technology, all have broad export prospects in developing countries.

- (3) **Traditional techniques with distinct ethnic features.** This includes antique-imitation handicraft techniques. Since the Hong Kong Marine Park Group Historic-Village Antique-Imitation Project, Guangdong's antique-imitation techniques have been exported to Singapore, to take part in the Tang City overseas project contracting. In addition, electronic diagnostic and therapeutic techniques based on traditional Chinese medical techniques combined with modern electronic technology, such as multifunctional therapeutic instruments and hemorrhoid-treatment instruments, are also the focus of much attention by foreign merchants.
- (4) **Computer software technology.** This is a key source of technology exports. Guangdong now has almost 200 computer software companies, whose export turnover accounts for about one-third of all of China's computer software exports. The world's computer software sales turnover has been growing steadily in recent years, reaching \$38.5 billion in 1985 and \$55 billion in 1987, with developed countries now also experiencing a severe shortage of computer software technicians, reaching a million in the United States, and 600,000 in Japan. We can adopt methods such as overseas undertaking of data input, data and data-base processing, software development, and running of joint-venture software companies to further reinforce our computer software exports.
- (5) **Laboratory technology.** While laboratory technology in principle should first be developed domestically, and then be broken into the international market in the forms of products or industrial technology once it becomes a productive force, if domestic market prospects are poor due to inadequate domestic development means, such as money and equipment, as well as the short life-cycle of such laboratory equipment, then we could consider forms such as joint development and production to develop such technology exports.

3. A Diversified International Market Strategy

The international technology-trade market is broad, complex, and ever-changing. Technology markets differ by region and country, with demand depending on factors, such as economic growth rate, product market capacity, foreign exchange payment capability, extent of modernized demand, and current technological base. As the international division of industry diversifies and international technology markets become increasingly brisker, Guangdong ought to focus on the diverse makeup and features of the international technology-trade market, base its actions on its existing technical and economic conditions, play its advantages up and its

shortcomings down, and adapt to economic development trends by pursuing a diversified market strategy for technology exports.

Developed countries are the key market for technology-license trade, with more than three-fourths of this type of trade throughout the world being concentrated among developed countries. We ought mostly to draw on the various advantages of developed countries by taking advantage of their fund and technological-base advantages to shorten the cycle of our conversion of S&T achievements into productive forces, and converting international advanced productive forces into our own technological development capacity and export competition capability in order to reach our ultimate goal of expanding our technology trade and developing our foreign economic relations and trade. In addition, we should actively initiate technology exports to developed countries, which would help to elevate China's trade standing, as well as bartering our new technological developments for technology exports restricted by developed countries, in order to further enhance China's overall might.

There is an eager demand in the former Soviet Union and the East European countries for our light textiles and applied industrial technology. Many of Guangdong's mature technologies, such as light textiles, electronics, and food-processing technology, are well-suited to the market demands in the former Soviet Union and the East European countries. In particular, as Guangdong's dozen or so years of reform and opening have enabled us to move first in absorbing, assimilating, and creating many new mature manufacturing technologies, which are in favor among businessmen in the former Soviet Union and the East European countries, our export prospects there are very bright.

Developing countries are the key market for industrial technology. Developing countries throughout the world are numerous (including 127 countries and regions), broad in space (making up one-third of the world), and vast in population (accounting for three-fourths of the world's population), the vast majority of which are economically backward. In order to develop their national economies, they are going to have a pressing need to import large amounts of foreign technology and equipment for a long time to come, which will make them key technology-trade markets. If Guangdong's technology is to become world-oriented, it will first have to capture the Hong Kong-Macao technology market, which it will use as a beachhead to expand further into the Southeast Asian and developing-country market. As the Asian-Pacific region has been experiencing rapid economic growth in recent years, with its market import demand being exactly suited to China's export supply capacity and competitive capability, diplomatic relations among governments improving, and numerous Chinese and overseas Chinese playing a bridging and intermediary role, we have good prerequisites and advantages for developing technology exports in this region. We will need to devote our efforts to expanding technology markets in developing countries focused on the Asian-Pacific region, in order to increase our technology exports to developing countries, which will help

us to further develop diversified markets and implement our basic export-promotion strategy.

II. Key Steps and Countermeasures

1. We Need To Enhance Our Publicity To Raise Technology Export Awareness

While technology exports have now become a new means of export earnings, most people are still not aware of this, being accustomed to emphasizing conventional commodity exports, and still having a hazy understanding of technology export earnings. This means that we need to better expand and enhance our publicity of technology exports by organizing earnest study and implementation of State Council and Provincial Government documents and regulations on breaking into the international technology market and expanding technology exports, in order to raise awareness of the necessity and urgency of expanding technology exports. This will mean establishing the following concepts:

- Developing technology exports is the only way to expand foreign trade, increase export earnings, and improve foreign economic relations and trade.
- Developing technology exports can break down the restrictions of trade protectionism, and help to break into diversified international markets.
- Developing technology exports can play our advantages up and our shortcomings down, by bringing our technical advantages into full play, and combining them with advantages such as the use of outside funds, raw materials, and markets, to form higher-level productive forces and operating capabilities.
- Developing technology exports opens up broad markets for the commercialization, industrialization, and internationalization of scientific achievements by helping to promote our technical development and advances in order to enhance our overall national might.

This means that we will have to expand our technology export publicity through diversified means, such as the press, television, and radio broadcast media. And Guangdong's once-a-year S&T Activity Month, including all technology trade activities, should also be combined with technology export publicity and foreign trade fairs.

2. We Need To Reinforce Our Leadership To Better Improve Our Technology-Export Operating Forces

As our technology exports are still at a rudimentary stage, elevating Guangdong's technology exports will necessitate much arduous and developmental work. We must proceed to better reinforce our leadership and improve our technology-export operating forces in the following areas:

- All municipal and county foreign economic relations and trade commissions and science commissions, and

concerned departments, institutions of higher learning, and research institutes should set up and develop technology-export management agencies, replenish their strengths, and draw up technology-export work plans, in order to reinforce their technology-export organizational, promotional, and management work. Foreign economic relations and trade commissions and science commissions at all levels must act in close coordination by setting up joint work regulations to coordinate the management of local technology-export work and organize and plan technology-export activities.

- In order to bring their key role in technology exports into full play, all technology-export management companies must make technology export their essential work by emphasizing it persistently. They should combine their features with an initiative to establish close relations with production enterprises, research units, and institutions of higher learning, by collecting technology-export items, ensuring that each company has a number of technology-export items with distinctive features and strong competitive capability, and providing excellent service to technology-export commercial agencies.
- Technology exports should be included in planned management, listed separately in export plans, regarded as an evaluation indicator of whether each city and technology-export management company has completed its planned tasks, and taken as the basis for export tax rebates.
- We should further devolve technology-export examination and approval jurisdiction to lower administrative levels, in order to stimulate the initiative of all cities to develop technology exports and improve their administrative efficiency. As MOFERT currently authorizes only the Guangdong Foreign Economic Relations and Trade Commission and the two plan-list cities (Guangzhou and Shenzhen) to examine and approve technology-export contracts, it is recommended that it expand such authorization to all cities. Until it does, we could first use the method of commissioned examination and approval, in which the Guangdong Foreign Economic Relations and Trade Commission would commission a number of cities to examine and approve technology-export contracts. Meanwhile, we need to correspondingly resolve the technology-export operating scope of primary municipal companies, so that their technology-export examination and approval jurisdiction matches their operating authority.
- We should allow all specialized industrial trade companies, as well as large- and medium-sized enterprises or company groups with foreign trade management rights to engage in technology-export operations within the scope of their specialties and enterprises to further strengthen technology-export operating forces.

3. We Need To Expand Our Technology-Export Goods Supply To Establish an Export Base

A technology goods supply is the basis for technology exports. In order to steadily expand our technology-export goods supply, we need to do a good job in the following areas:

- We need to conduct surveys, collections, collations, analyses, and screenings of our technology-export goods supplies, by setting up technology-export project case files, publishing project reference, publicity, and advertisement data and, aiming at the technology demands of various countries (regions), selecting and promoting various levels and types of items.
- In light of our current low level of commercialization of technology-export projects, we should adopt the method of supporting priorities to promote the overall situation by providing priority support, publicity, and promotion in funding, manpower, and material to priority projects with good export prospects, in order to develop their export-earnings capability as quickly as possible.
- We need to vigorously cultivate and develop new technology-export goods sources, by acting in accordance with Guangdong's technical might and overseas technology demand, to organize research institutes, institutions of higher learning, and concerned enterprises to tackle key development problems, or to conduct cooperative development with foreign research and production agencies, in order to speed up our commercialization, industrialization, and internationalization of S&T achievements.
- We need to establish a Guangdong technology-export base. With the State Council's approval, Guangdong has now concentrated the vast majority of its high-tech industries in the three high-tech development zones of Guangzhou, Shenzhen, and Zhongshan, and in the high-tech industrial strip with eight cities and six counties in the Zhu Jiang (Pearl River) Delta. Speeding up the development and construction of high-tech industries in this "three zones and one strip" will gradually evolve into a strong technology-export base in Guangdong Province.
- We need to strengthen our links and cooperation with neighboring provinces and cities, in order to bring our role as a technology-export "window" into full play. As neighboring provinces and cities have rich technical resources and solid research and technical forces, while Guangdong has more personnel, academic, and geographic advantages and richer practical experience in reform and opening, combining the two will form a powerful technology-export capability. Guangdong ought to adopt forms such as joint development and commissioned export in order to strengthen its technology-export cooperation with neighboring provinces and cities.

4. We Need To Enhance Our Technology-Export Promotion To Gradually Form a Technology-Export Marketing Network

In order to make Guangdong technology world-oriented, we will need to use all methods to enhance our technology-export publicity and promotion.

- We need to make full use of the "window" role of the Guangzhou Export Commodities Fair, to display, publicize, and promote Guangdong's technology-export items.
- The Provincial Foreign Economic Relations and Trade Commission and Science Commission should take the lead in organizing technology-export investigation and promotion groups, or technology-export management companies should send out technology-export promotion groups, to publicize and promote our technology-export items, and investigate and collect (intelligence) on local technology markets and pertinent technology-market policies and regulations.
- We should take part in international invention and high-tech shows, or large promotions organized by MOFERT, the State Science Commission, or Guangdong Province. All exhibition or business-solicitation activities organized by Guangdong should include technology-export items.
- We should use publicity and promotion of technology-export items by our overseas companies or agencies for collection of and feedback on overseas technology-market information. Our domestic technology-export management companies can also set up technology-trade companies abroad, or technology-trade branches in existing overseas companies, to help in the development of technology-export markets.
- We should establish widespread technology-trade relations with foreign firms, in order to turn around as quickly as possible our status quo of blocked technology-export channels.
- And we need to reinforce our ties to international transnational corporations. Reports show that about 80 percent of the capitalist world's technology trade is conducted among 500 transnational corporations. All of our technology-export management companies should take the initiative to collect information on all transnational corporations, as well as establishing business ties with them.

5. We Need To Adopt Flexible and Diversified Trade Forms To Develop Technology-Export Business

In order to expand Guangdong's technology exports, we will need to base our actions on the types of technology-export items and real national (regional) differences, by selecting various forms of trade to achieve maximum economic efficiency.

- License trade is a key form of technology export. The basic substance of this form is the transfer of certain

legal rights, which is applicable in the transfer of industrial property rights (patents and trademarks) and proprietary technology. Most technology exports to developed countries take this form. Guangdong's exports to Canada of all-model ship patent technology and to Japan of large-bore well-drilling and riverbed water-purification patent technology are both in the license trade form, which is remarkably efficient.

—We should set up factories overseas, meaning investing technology, equipment, capital, and sometimes even some funding in running overseas factories. This is a capitalized form of technology export. Adopting this form in politically stable countries (regions) with good investment climates contributes to opening up markets and using local resources and conditions to achieve long-range economic efficiency. Overseas factories set up and run by Guangdong, such as the Antimony Smelter in Thailand, the U.S.-China Huasu Company, Ltd in the United States, and the Bowens Technology Company, Ltd, in Australia, all use the form of technology and equipment capitalization to run joint ventures with overseas firms.

—We should export complete sets of equipment. Using technology to promote exports of complete sets of equipment is a key current form of China's technology exports. We ought to make widespread use of this form to export Guangdong's mature manufacturing technology to developing countries.

—We should practice project contracting and cross-key engineering. This type of technology export usually includes items such as technology or engineering design, equipment manufacturing, installation, and adjustment, project construction, and personnel training. While such projects require more funding and manpower, take more time, and are relatively more risky, they can promote large-scale exports of machinery and electronics equipment, raw materials, and labor, so produce markedly better export-earnings efficiency, and have a greater impact on the place of construction. But they also require meticulous design and construction to win prestige and markets.

—Technical service refers to the provider using its own technology, experience, and technical conditions to provide the receiver with various designing and technical services, to help the receiver complete certain economic and technical projects. Guangdong's export to Hong Kong of electromagnetic-wave karst-survey technology is conducted in the technical-service form, having won the attention of the Hong Kong branch of the New China News Agency (the PRC's unofficial Hong Kong embassy) and praise by its industry in Hong Kong. As the technical-service form is simpler and less risky, it can be used more extensively.

—Technology leasing is a common form of international trade that helps to expand exports of equipment, particularly complete sets of equipment. It includes leasing of cargo ships and ice-sculpture refrigeration

equipment. Using this form of equipment leasing along with technical service helps to expand technology exports to developing countries.

—We should combine technology exports with the use of foreign investment. This means our side using technology capitalization to attract foreign investment to the setting up and running of joint-venture enterprises in China. This form has been tested in the Zhongshan Torch High-Tech Development Zone, in which Beijing-Guangdong Computer and the Stone Corporation have both cooperated with foreign firms with their own-developed new technology to speed up their high-tech industrialization and internationalization.

6. We Need To Actively Establish and Develop Technology-Trade Transnational Corporations

Along with the regionalization and grouping of the world economy, new changes have occurred in international operating and marketing conditions, with the technological revolution reducing the importance to products of labor costs, and the advanced information, communications, and manufacturing-technology revolution bringing increasingly clearer international-production advantages to transnational corporations. The world now has more than 11,000 transnational corporations, whose trade turnover makes up about one-half of world trade, and which control 70 percent of international technology trade. If Guangdong's technology exports are to develop a place in the midst of sharp international competition, we will have to take the transnational operations route, by actively establishing and developing our own technology-trade transnational corporations.

7. We Need To Provide Policy Encouragement and Support to Technology Exports

In order to better stimulate the initiative of all areas and sectors to develop technology exports, and to create the prerequisites for the successful development of technology-export service, the state should draw up as quickly as possible preferential policies to encourage technology trade, providing encouragement and support in the following areas:

—It should set up a special import-export credit fund to support technology export and a technology-export development fund. The former should be set up by the PBC and the BOC, which would set aside some RMB and foreign exchange loans each year with preferential interest rates to be used to resolve the funding problems of key technology-export projects. And the latter would be set up by an annual appropriation of a certain percentage of provincial and municipal revenues to speed up the commercialization, industrialization, and internationalization of technology-export projects.

—It should grant more foreign exchange retention rights to technology-export goods suppliers. As technology exports are harder than ordinary commodity exports,

they should be granted more foreign exchange retention. As to technology software exports, retention percentages should be higher than for machinery and electronics products.

—As technology exports help to change the export commodity mix and speed up the development of an externally oriented economy, export enterprise burdens should be lightened by granting preferences in areas such as tax reductions and exemptions and export tax rebates.

—Visa examination and approval procedures for technicians and managers should be streamlined. In the implementation of technology-export contracts, the prompt dispatching of concerned personnel according to contracted requirements is crucial to the success of projects. Unless this problem is solved appropriately, it will be hard to expect technology exports to make great progress.

INDUSTRY

Machine Tools Corporation on Impact of GATT

93CE0465A Beijing JICHUANG [MACHINE TOOLS]
in Chinese No 3, 18 Mar 93 pp 33-35

[Article by Xie Guangliang (6200 0342 0081) of the China Machine Tools Corporation: "The Impact of Joining GATT on Our Industry and How To Deal With It"]

[Text] "Joining GATT" (a brief way of referring to China's returning to the General Agreement on Tariffs and Trade) is a popular topic of conversation these days, and this magazine has published quite a few articles discussing it. So I would like to add my own views.

I. Opportunities and Challenges

"Joining GATT" will speed up the reform of China's system of foreign trade, and promote China's market economy getting it "on track" with the larger market economy of the world, and blending it into that economy. For China's machine tool industry, "joining GATT" will bring with it both opportunities and challenges:

1. It Will Be Useful To Adjust Our Machine Tool Product Mix

After "joining GATT," the government's past policies protecting domestic markets will no longer be of use. Machine tool products from overseas will enter our domestic markets, with fair trade and free competition. If enterprises cannot promptly alter their old products or develop new products in order to meet consumer demand, they could possibly be squeezed out of the market. Therefore, our machine tool product mix will be improved by market competition. The ministries responsible for the industry will lead in a timely and appropriate fashion, and will serve as a catalyst.

2. It Will Be Useful To Bring in High, New Technology and Products

After "joining GATT," in world trade activities and cooperation, China will be on an equal status with the world's industrially developed nations. The "Paris Accord" restrictions of the past will be relaxed. Bringing in this sort of high and new technology will help to raise the technological level of our own industry.

3. It Will Be Useful To Expand Export Markets

After "joining GATT," China can unconditionally enjoy even more countries' most favored nation treatment. It can utilize favorable tax rates in treaties, expand the scope of its machine tool exports, and implement pluralized markets. We can strengthen our competitive strength through competition.

4. It Will Be Useful To Transform Enterprise Operation and Management

The operations and management system of Chinese enterprises. It is only through the fierce competition of the market economy system that reform will be accomplished, and the hope of transformation be achieved.

"Joining GATT" will be useful in developing and enhancing our industry. At the same time, we will be required to assume several responsibilities. Enterprises will lose the protections of former tariff and nontariff barriers, and have to face the competition of machine tools produced abroad, which will be rigorous.

Over the years, China has imported more machine tools than it has exported. The statistics for the last two years show that: in 1990, machine tool imports were 1.176 times again that of exports, and 1.62 times again that of 1992. In each year approximately \$550 million in machine tools were imported. The situation was altered greatly last year, with machine tool exports during the first half of the year being 23.2 percent less than for the same period in 1991, while there was a massive increase in imports, \$430 million in just the first half of the year. China must promise that after "joining GATT," we will scale back tariffs, decreasing by half the actual tariff rate of 22.5 percent within three to five years. We must also simplify our import application procedures, and eliminate governmental interference. This will help imported machine tools to compete in Chinese markets, and will certainly lead to a major assault on domestic machine tools.

In general, the assault from imported products will have a very great influence on basic industries and high, new technology industries, less so on labor intensive industries. Therefore, domestically produced high and new technology machine tools (such as numerically controlled machine tools, precision machining tools and heavy duty machine tools) will bear the brunt of the attack. For example: a domestically-produced numerically controlled system produces a certain quantity, but the system has not yet been raised to a higher quality

level; post-sales service will then be required to improve it, which will bring its cost to approximately that of the imported product. If improvements are not made early on, it will be very difficult to compete with imported systems. In recent years, there has been a rapid growth in domestic production of numerically controlled machine tools, but before they can compete with those manufactured in Taiwan, there is still much work to be done in improving their level, product variety, quality, and price. After the Taiwan products were demonstrated at the Second International Machine Tool Exhibition, there was a rapid increase in orders from China; after "joining GATT," there could be an even greater increase. Therefore, domestically produced numerically controlled systems and numerically controlled machine tools will be gravely threatened. The "struggles" of the past decade have begun to build a foundation for numerically controlled production, and this may be critically pressured in the assault.

There is a firm foundation for our precision machining tool production, but it is insufficient to seek success by reliance on low prices alone. Competitive power still demands that the level be raised, and new products developed. Recent years have seen improvement in our heavy machine tools, but they have not gained a dominant position due to such problems as long waiting periods for delivery and high prices, combined with the onset of foreign competition.

Although our general machine tool output is the highest in the world, in order to raise foreign exchange, the state has subsidized these products in varying degrees, allowing them to be sold in foreign markets at low prices. These subsidies will be eliminated after "joining GATT," and when the products enter competition at their true price, I fear that a certain portion of our machine tools will not be exportable.

Therefore, after "joining GATT," copied products will be involved with the intellectual property rights issue, and by being restricted will encounter sales problems in domestic and foreign markets.

The many examples above show that after "joining GATT," our industry will be under fierce attack. It will have a direct affect on enterprises, and put those enterprises which have not adopted advance measures in a vulnerable position.

II. Enterprise Countermeasures

Reports indicate that there will be a resolution to the "joining GATT" question within the year. Therefore, actions to deal with the situation after "joining GATT" require our immediate attention. Enterprise countermeasures should be:

1. Bring Machine Tool Operations to a Basic Level of Competition

The changes that come about after "joining GATT" should not include any unrealistic notions. Some people

believe that China's numerically controlled systems and numerically controlled machine tools should be included in the "infant industry" category, and thereby be protected by regulation. But the period of such protection would be only three to five years. Will we be able to adopt within that space of time such emergency measures as will enable our numerically controlled machine tools to compete internationally? On top of that, it is still uncertain as to whether such "infant industry" inclusion is possible. Therefore, the fundamental way out lies through seeking disparity in competition, according to market requirements, and doing a good job in every regard. Competition will alter the enterprises' unfavorable situation and improve their real strength, giving them solidity and development. Right now, we should be perfectly clear as to the content and principles of the General Agreement on Tariff and Trade, linking it to our enterprises' specific situations, then study appropriate countermeasures and formulate specific measures for adoption.

2. Pay Attention To Adjusting the Enterprise Product Mix

In the final analysis, market competition is competition of products and their associated conditions. The competitive strength and staying power of enterprises is demonstrated by their products. Therefore enterprises should adjust their product mix according to the demands and trends of the market, giving special attention to the following several points:

- (1) Product level and technological content must be higher. Current technology is already fairly mature, but time must be devoted to raising the quality of medium- and high-level machine tools (such as numerically controlled lathes, machining centers and electric spark machine tools, etc.), forming an economical batch of these as soon as possible. This will cut costs, increase competitive strength, and get a jump on capturing the market. It would be preferable to use reputable imported brands for peripheral equipment, to ensure overall mechanical quality. For example, Taiwan's latest system of numerically controlled machine tools is equipped totally with the FANUC [as published] from Japan (or some other country), and is very strong in international markets. So why can't we do it this way?

In developing our numerically controlled machine tools, we must rely on our own knowledge of the market, and analysis of market needs. Study the crafting changes in consumer industries, and bring out specialized products in accordance with this. By all means, avoid being "copycats," always following others. Acting in accordance with national characteristics and consumers' ability to support, develop different levels of economical numerically controlled machine tools. This is because there is a greater need for this category of machine tool in the market, and easier to form a batch for production. In addition, this higher level of product is not something that

many of our consumers can cope with quickly, so while there is still not a great market demand, we should develop now to meet consumer demands.

- (2) The repeated production of similar general machine tools does nothing for competitiveness. If small and medium sized enterprises do not soon cast off their historical production patterns, and not develop products which are characteristically their own, they will forever be trailing behind larger enterprises, and will find themselves in a difficult position in market competition. General machine tools have been large- and medium-sized enterprises' leading products for a long time, but they cannot satisfy the needs of the current market. So there must be a stress on rapid adjustment, enhancing the ability to handle emergencies.
- (3) Regarding such products as medium- and large-sized machine tools, gear wheel machining tools, and some high precision machine tools, we currently have superiority, a foundation, and relatively few competitors in the world market. So we have time to turn them into products which are distinctly our own. If we just organize for the market opening up, increase the variety of our models, improve quality, and catch up in service, then we will carve out a piece of the market.
- (4) Product quality, price, date of delivery and post-sales service are all important conditions of market competitiveness, and are links which we absolutely must strengthen from the start. By competing in a market economy system, these difficult problems will all be resolved.

Product quality is a condition of competitiveness, and an objective measure of it. We must not use "famous brands" or "product comparisons" as measures by which to judge product quality. It is for the consumer to appraise quality. The only quality goals are that superior quality products obtain better market prices, and gain a market reputation. There are also objective quotations for products prices: in different markets, products of dissimilar quality will be priced at different levels. There should be studies of market product price quotations, with accurate measures of controlling prices, using prices to promote product quality, striving to sell at a good price. This is the goal in market competition; to sell at a good price, you must have a good product.

Product quality, price, date of delivery and post-sales service all have relevance to an enterprise's reputation. In market competition, reputation is the life of an enterprise, and one must do all that one can to raise the level of that reputation.

3. Enterprises Should Enter World Markets as Soon as Possible, Changing "Replace Imports" Into "Export Guidance"

"Block imports" and "replace imports" were views often expressed in the past, but which one never hears anymore. This is because they belong to the restrictive

measures of protectionism, and run counter to the provisions of GATT. Actually, we cannot rely on blocking imports: we can only rely on driving them out. Enterprises can drive them out by taking a stand in the world markets, and not fearing foreign enterprises competing here. Therefore, it is now time for enterprises to do their utmost to push their products into world markets. By importing technology or cooperating with foreign enterprises in the development of new products, it will be easier for these products to gain acceptance in foreign markets than it would be by going it alone in development. Other ways are: bring in more illustrations and samples for processing and import materials for processing; import foreign spare parts and peripherals for installation in the assembled machine. These are all familiar practices internationally. In international trade, large scale importing and exporting are common; but we should do our utmost to make our exports greater than our exports.

4. Change "Individual" to "Collective" To Strengthen Our Competitive Strength

From the standpoint of development, changing the "individual" to the "collective" and organizing enterprise groups will maximize their collective superiority, add to their actual strength, and be appropriate to what they need to compete. Machine tool enterprises in the advanced nations generally all developed in this way. By organizing enterprise groups in accordance with market changes and the needs of competition, the enterprises will find their own composition renewed.

Market competition is a systematic process. It includes the separate links of information, development, production, management, and service, and these links all extend into other areas. Accomplishing all these actions is not something that a single enterprise is competent to do. Our enterprise research units, operational units and foreign trade companies are not all around operations: each has its strong points. If these enterprises were to join together, with each contributing its strengths, they would complement each other and very quickly form a collective superiority. They would form a very strong competitive strength, and take their place in domestic and foreign markets.

Enterprise groups can be formed by either bonds of funding or by bonds of work. I believe that bonds of work are the most fundamental and the most practical; this is an important foundation. In the long view, organizing these enterprise groups by a reliance on administrative force lacks the essential internal connections, and lacks a life force.

"Joining GATT" is something that will be resolved very soon, and its opportunities and challenges cannot be avoided. Some people believe that GATT is something we can always get along with, and from the standpoint of the nation as a whole this is true. But for a specific enterprise, whether we can get along with GATT is another matter entirely!

FOREIGN TRADE, INVESTMENT

Analysis of Discrepancy in U.S. Trade Statistics

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[Article by Jia Huaqin, affiliated with the University of Foreign Trade and Economic Relations: "Country of Origin Statistical Criterion Is the Root Cause of the Discrepancies between Trade Statistics of China and the United States—A Factual Analysis of the Hong Kong Transit Trade Involving China and the United States"]

[Text] It is common knowledge that since the second half of 1989, trade relations between China and the United States have been plagued by a series of trade and nontrade factors. The U.S. Government has pressured China many times in an attempt to force the Chinese Government to make concessions on bilateral trade issues or even on political issues. As a result, trade between China and the United States has been kept at a low level of development. One of the main excuses used by the United States has been the argument about the growing U.S. trade deficit against China, which serves as a basis for the demand that China open up its market. However, according to the Chinese statistics, the U.S. trade deficit against China is not as large as claimed by the United States, but is in the category of acceptable imbalances. This is the so-called statistical discrepancy problem regarding trade between China and the United States.

Why would there be such large and growing discrepancies between the Chinese statistics and the United States on their bilateral trade? Some scholars of international trade, especially of the Sino-U.S. bilateral trade, have tried to find the causes. Some of them attribute the problem to the Hong Kong transit trade involving China and the United States. This author has also discussed the problem purely from the perspective of trade statistics system and methods, in an effort to provide support for the above-mentioned view. But, up to now, I have not seen any article using statistical data as basis for arguing that the Hong Kong transit trade is the main cause of the discrepancies between the trade statistics of China and the United States. This article is designed to fill this gap

in research, and to provide some ideas for reference for China in its negotiation effort regarding Sino-U.S. trade.

Overall Analysis of the Volumes of Sino-U.S. Bilateral Trade

From an overall perspective, since China's adoption of policies of reform and opening to the outside world and since the establishment of formal diplomatic relations between China and the United States, the economic and trade exchanges between China and the United States have been growing at a high rate. China's modernization program has provided a large market for the United States, and China needs to purchase technology, equipment, and agricultural and forestry products from the United States. In order to provide the foreign exchange necessary for sustaining ever-growing imports, China has also worked hard to improve its position in the U.S. market, relying on its own strengths. Both countries have gained benefits from the bilateral trade. Therefore, an irregular development or retrogression in trade between the two countries will be harmful not only to China's development, but also to the economic interests, or even strategic interests, of the United States.

According to the statistics of China (those for 1979 and 1980 are foreign trade operational statistics, while the rest are statistics of the Customs Administration; the same below), the total volume of Sino-U.S. trade was US\$2.452 billion in 1979, and exceeded US\$5 billion in 1981, reaching US\$6.301 billion. From then to 1987 it fluctuated under US\$8 billion. It reached US\$10.011 billion in 1988, thus getting over the US\$10 billion mark, and rose to US\$12.25 billion in 1989. It grew at an average annual rate of 17.5 percent in the decade 1979-1989. After that decade, as the United States imposed economic sanctions on China, and as China carried out domestic economic readjustments, the total volume of Sino-U.S. trade first decreased to some extent, and rose slowly shortly afterwards. The average annual rate of growth was 7.7 percent for the years 1989-1991. Based on the statistics for the first half of 1992, the total volume of Sino-U.S. trade for the entire year of 1992 can be generally expected to be kept at the 1991 level, around US\$14 billion. But, according to the statistics of the United States, the total volume of trade between the two countries rose from US\$2.37 billion in 1979 to US\$25.262 billion in 1991. The average annual growth rate was 22.3 percent for the first ten years, and 19.1 percent for the last two years.

Table 1. Volume of China-U.S. trade (in hundreds of millions of U.S. dollars)

Year	Total volume: CT	Import: CI	Export: CX	Imbalance: CB=CX-CI
1979	24.52	18.57	6.00	-12.57
1980	48.13	38.30	9.83	-28.47
1981	63.07	47.64	15.43	-32.21
1982	61.73	43.74	17.99	-25.75
1983	44.93	27.70	17.23	-10.47
1984	64.70	40.37	24.33	-16.04
1985	74.30	50.90	23.40	-27.50

Table 1. Volume of China-U.S. trade (in hundreds of millions of U.S. dollars) (Continued)

Year	Total volume: CT	Import: CI	Export: CX	Imbalance: CB=CX-CI
1986	73.49	47.17	26.32	-20.85
1987	78.76	48.35	30.41	-17.94
1988	100.11	66.31	33.80	-32.51
1989	122.50	78.60	43.90	-34.70
1990	117.67	65.88	51.79	-14.09
1991	142.00	80.10	61.90	-18.20
First half of 1992	71.20	32.60	38.60	6.00
(Commensurate yearly volume)	142.40	65.20	77.20	12.00

Source: foreign trade operational statistics of the Ministry of Foreign Trade and Economic Relations of China; the Customs Administration of China.

Table 2. Volume of U.S.-China Trade (in hundred million U.S. dollars)

Year	Total volume: AT	Import: AI	Export: AX	Imbalance: AB=AX-AI
1979	23.71	6.54	17.17	10.63
1980	49.13	11.64	37.49	25.85
1981	56.61	20.62	35.99	15.37
1982	54.07	25.02	29.05	4.03
1983	46.40	24.77	21.63	-3.14
1984	63.70	33.81	29.89	-3.92
1985	80.20	42.24	37.96	-4.28
1986	83.47	52.41	31.06	-21.35
1987	104.08	69.11	34.97	-34.14
1988	135.45	85.12	50.33	-34.79
1989	177.96	119.89	58.07	-61.82
1990	200.00	152.00	48.00	-104.00
1991	252.63	189.76	62.87	-126.89
First quarter of 1992	66.57	50.45	16.12	-34.33
(Commensurate yearly volume)	266.28	201.80	64.48	-137.32

Source: the U.S. Treasury Department

From the late 1970's to the early 1980's, China mainly imported from the United States such agricultural products and raw materials as grain, cotton, timber, paper pulp, chemical fertilizers, and synthetic fibers; also equipment such as oil exploration equipment, transport equipment, chemical industrial equipment, electricity generating equipment and large computers. But, since the mid-1980's, machinery and equipment have been taking up an ever larger share. China's export to the United States consists of mainly textiles, light industrial products and food, aside from petroleum. In the recent years, the two countries are experiencing increasingly prominent frictions over such issues as textiles trade, protection of intellectual property rights, and access to the Chinese market. In addition, the United States has also raised so-called issues such as arms trade, human rights, and export of products made with forced labor, in an attempt to increase pressure on China, resulting in

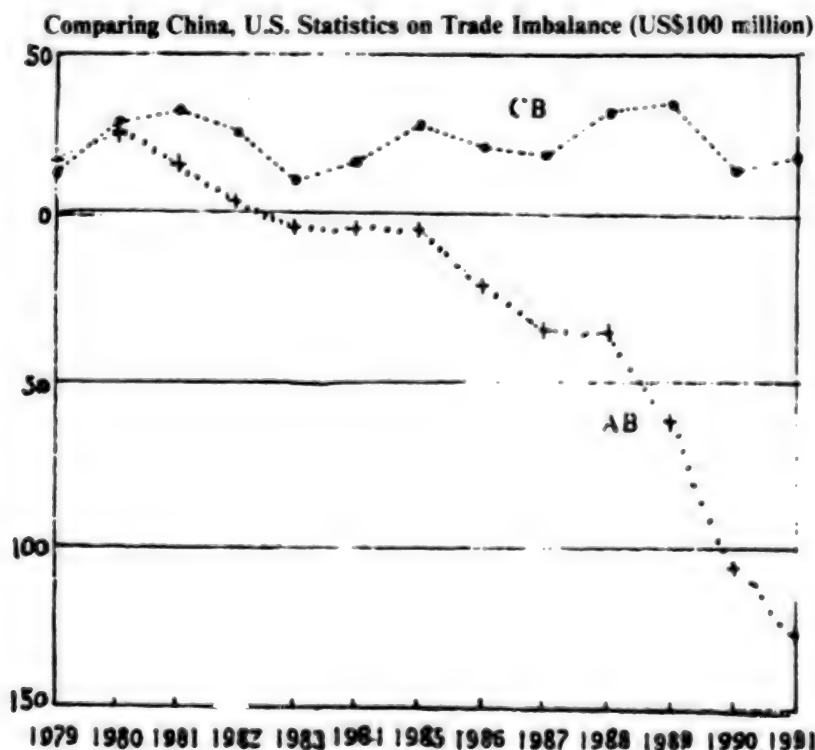
tension between the two countries over trade and a slowdown in the development of trade. In 1992, the Chinese Government took many initiatives in efforts to promote trade between China and the United States, and the United States also made some responses. After many twists and turns, China and the United States finally reached agreement in the ninth-round negotiation on market access, thereby leading to some relaxation in the economic and trade relations between the two countries.

Table 1 and 2 are bilateral trade volume statistical tables based respectively on statistics of China and statistics of the United States, showing the import volume, export volume, total trade volume and imbalance for each side. They can help us analyze the question of trade imbalance between the two sides on the basis of reviewing the development levels of bilateral trade between China and the United States in the last dozen years. According to

Table 1, in 1979-1991, China has had a deficit which has fluctuated. In 1989, China had the largest ever deficit, totalling US\$3.47 billion. The deficit for 1988 was US\$3.251 billion. The smallest annual deficit, that for 1983, was US\$1.047 billion. During this period, China's average annual deficit was US\$2.241 billion. We can also see that China's deficit, after reaching a peak in 1989, fell greatly in 1990, but rose slightly in 1991. It can be expected to fall again in 1992. However, according to Table 2, the United States had surpluses prior to 1983, but experienced a turnaround that year. And since 1989, the U.S. deficit has been growing at a high rate. The two tables show similar trade imbalances in 1979 and 1980, are markedly different but not going in opposite directions in 1981 and

1982. The following years are tremendously and to an ever larger extend, different. We can contrast the statistics of the two sides by making a linear regression chart (see Chart 1) based on the two sets of statistics from the "imbalance" columns of Table 1 and 2.

On Chart 1, we can see that according to China, China has always been having trade deficits against the United States, and that this time series does not indicate a long-term trend of change. But, according to the United States, the U.S. trade imbalance against China was first positive and then negative, demonstrating a falling trend, and the discrepancy with the former is becoming ever larger.



Note: Line CB is a time series indicating the figures corresponding to Chinese deficits against the United States according to the Chinese methods (i.e., U.S. surpluses against China according to the Chinese methods); Line AB is a time series indicating U.S. deficits against China according to the U.S. methods.

Table 3. Discrepancies in Bilateral Trade Imbalances Calculated on the Basis of the Two Statistical Methods of China and the United States, and the Extent of Exaggeration of the Two Countries' Export Volumes

Year	Discrepancy in Trade Imbalances: D=(CB)-AB (in hundreds of millions of U.S. dollars)	Extent of exaggeration of U.S. export: CI-AX		Extent of exaggeration of Chinese export: AI-CX	
		Absolute amount (in hundreds of millions of U.S. dollars)	Relative amount (percentage)	Absolute amount (in hundreds of millions of U.S. dollars)	Relative amount (percentage)
1979	1.94	1.40	8.2	0.54	9.0
1980	2.62	0.81	2.2	1.81	18.4
1981	16.84	11.63	32.4	5.19	33.6
1982	21.72	14.69	50.5	7.03	39.1
1983	13.61	6.07	28.1	7.54	43.8
1984	19.96	10.48	35.1	9.48	39.0
1985	31.78	12.94	34.1	18.84	80.5
1986	42.20	16.11	51.9	26.09	99.1
1987	52.08	13.38	38.3	38.70	127.3
1988	67.30	15.98	31.7	51.32	151.8
1989	96.52	20.53	35.4	75.99	173.1
1990	118.09	17.88	37.3	100.21	193.5
1991	145.09	17.23	27.4	127.86	206.6

Source: foreign trade: operational statistics of the Foreign Economic Relations and Trade of China; the Customs Administration of China; and the U.S. Treasury Department. Recalculated on the basis of Table 1 and 2.

The discrepancy between the two time series in Table 3 expanded gradually from US\$200 million in the early years to US\$14,509 million in 1991. This shows that the discrepancies caused by different statistical methods used as a basis for the two sets of statistics have grown with the growth of the volume of trade between the two countries. The figures in Table 3 can provide clues for further analysis of the problem. By comparing Chinese imports from the United States with U.S. export to China and comparing U.S. imports from China with Chinese exports to the United States, we can see that there still exists exaggeration, to some extent, of U.S. exports caused by the differences between the two statistical methods, but that the exaggeration is far smaller than that of Chinese exports. (Some may argue in this context that it is not proper to directly compare the volume of import calculated on the basis of C.I.F prices with the volume of export calculated on the basis of F.O.B prices. But, this author is of the view that such comparison is proper because of the following reasons. First, we are making comparison in both directions, thus, in principle, creating no problem of one-direction errors. Second, according to the calculations of some international trade statistics specialists, on average the value of a shipment of goods calculated on the basis of C.I.F prices would be higher by 9 percent than calculated on the basis of F.O.B prices. If we deduct 9 percentage points with regard to Columns 3 and 5 in Table 3, the preceding conclusion would not be affected.) Take the example of 1991. The volume of imports from China according to U.S. statistics was more than three times the volume of export to the United States according to Chinese statistics. But, the volume of imports from the United States according Chinese statistics was only one-fourth larger than the volume of exports to China according to

U.S. statistics. Recognition of this point would push us to give more attention to comparing the statistical methods used to calculate U.S. imports from China and Chinese exports to the United States when searching for the cause of discrepancies between trade statistics of China and the United States.

Hong Kong Transit Trade and the Discrepancies Between Trade Statistics of China and the United States

1. *The criteria for determining trading partners are the root cause of the discrepancies between trade statistics of China and the United States*

Theoretically, the causes of discrepancies between trade statistics of two trading partners are multifaceted. They mainly are:

Trade statistics inclusion criteria (such as the differences in the minimum value for inclusion in statistical calculation regarding mails and transactions involving small monetary amounts).

Trade recording system (the difference between the system for recording trade in general and the system for recording trade in special areas).

Criteria for recording the value of goods (the difference between values calculated on the basis of F.O.B prices and values calculated on the basis of C.I.F prices).

Currency conversion;
criteria for determining trading partners;
difference between times of export and import.

With regard to comparing the two sets of statistics on bilateral trade imbalances between China and the United States, some of the above-mentioned causes can be disregarded, and some can be eliminated. The trade statistics inclusion criteria for the two countries are basically the same. The impact of the small differences can be considered negligible in view of the discrepancies in the amounts of billions or even tens of billions of U.S. dollars between the trade imbalance statistics of the two countries. Now let us look at the system for recording trade. The United States uses the system of total import, while China uses the system of export in special areas. This creates the tendency to enlarge the value of Chinese exports to the United States when recorded at the entry to the United States. Meanwhile, the United States uses the system of total export, while China uses the system of import in special areas. This also creates the tendency to enlarge, before entry to China, the value of Chinese import from the United States when recorded at the departure from the United States. These two tendencies tend to cancel each other out in terms of the issue of the discrepancies between the trade statistics of the two countries under our discussion, and therefore can be eliminated. In addition, as analyzed in the preceding paragraphs, the impact of the criteria for recording the value of goods goes in both directions can also, therefore, be disregarded in our discussion. The problem of currency conversion refers to the following situation. Country A and country B would each calculate country A's export and country B's import with their own currencies as the units of value. At the time of transaction, the conversion rate of the two currencies would change with the changes in the foreign exchange rates, but a uniform conversion rate would be used to convert country A's export volume from in terms of a value in country A's currency into a value in country B's currency. This inevitably creates discrepancies between country A's export volume and country B's import volume after being converted. This situation will not occur in situations where two countries use the same currency for value calculations in preparing trade statistics. The trade figures published by China's Customs Administration based on their statistics are U.S. dollar figures. Therefore it is not necessary to consider the impact of the conversion factor on the discrepancies between the trade statistics of China and the United States. As for time differences, they only affect the explanation of differences in figures for a certain year. It is not necessary to consider the impact of time differences when comparing two sets of statistics for several consecutive years. With the above-mentioned factors eliminated, we will now examine how the criteria for determining trading partners affect the discrepancies between the trade statistics of China and the United States.

The so-called criteria for determining trading partners are criteria for determining the trading partners involved in an import-export transaction. Theoretically, one can choose the country of origin, country of departure or country of selling criterion for determining partners involved in import trade, and the country of consumption, country of destination or country of buying criterion for determining partners involved in export trade.

Certainly, in practice, countries use different criteria for determining trading partners, due to the needs of the economic system or the needs of trade regulation, or convenience in preparing statistics, or tradition. In terms of the actual situation, most countries use the country of origin/country of destination criteria, and almost all developed countries use the country of origin/country of destination criteria. China's Customs Administration is also, in effect, using this pair of criteria. This situation facilitates the standardized regulation of trade, but also impairs the international comparability of trade statistics. This problem is especially serious under the circumstances of large-scale transit trade. The Hong Kong transit trade involving China and the United States is a typical case in this regard.

In the statistics of China's Customs Administration, the country of consumption (or country of destination when the country of consumption is unknown at the time of dispatch) is considered the trading partner. If the country of consumption (or country of destination) for a shipment of goods is known to be the United States at the time of departure, then this shipment will be counted in the statistics on export to the United States. If a shipment of goods is only known to be destined for Hong Kong at the time of departure, then it can only be counted in the statistics on export to Hong Kong. China's Customs Administration has no way of knowing that that shipment of goods would later be transshipped to the United States, and therefore cannot count it in preparing statistics on Chinese exports to the United States. The United States uses the country of origin criterion to determine partners involved in import trade. Thus, goods originated from China, whether in shipments from the Chinese inland or transshipment from Hong Kong, are all counted in the statistics on imports from China. It is exactly this reason that makes the import volume in U.S. statistics markedly exceeds the export volume in Chinese statistics.

The same is also true in the case of goods going in the opposite direction. China's import statistics based on considering the country of origin the trading partner would surely cover goods originated from the United States, whether in direct shipments from the United States or in transshipment from Hong Kong. The United States considers the country of destination the trading partner, and therefore its statistics would surely not cover goods transhipped at Hong Kong to China. As a result, the import volume in Chinese statistics markedly exceeds the export volume in U.S. statistics.

As should be pointed out, the impact of the criteria for determining trading partners on the statistics on trade imbalances between China and the United States goes in both directions, but the impact is not of the same weight in both directions. The net effect is a serious exaggeration of the U.S. trade deficit calculated according to the U.S. statistical methods. The root cause here is the imbalance between China and the United States regarding the Hong Kong transit trade, with the value of goods going in the Chinese inland—Hong Kong—the

United States direction markedly larger than that of goods going in the opposite direction.

2. Support Provided by Statistics on Hong Kong Transit Trade

Table 4 and 5 contain statistics on Chinese goods transshipped at Hong Kong to the United States and U.S. goods transshipped at Hong Kong to the Chinese inland; the value of the former is often several times larger than that of the latter. For example, in 1991, the value of the former was US\$13.38 billion, while the value of the latter was only US\$1.71 billion. If the former is regarded

as Chinese export to the United States, then China would acquire a surplus of US\$11.56 billion. Similarly, if the latter is regarded as U.S. export to China, then the U.S. deficit would be reduced to US\$10.98 billion. The discrepancies between trade imbalance statistics of China and the United States would be much smaller than when the two groups of statistics on the transit trade are not counted. Take the example of 1988-1990. The discrepancies would be greatly reduced or even eliminated when the bilateral trade imbalances between China and the United States are "adjusted" through taking into account the statistics on the Hong Kong transit trade in both directions.

Table 4. "Adjustments" of Imbalances in China-U.S. Trade (in hundreds of millions of U.S. dollars)

Year	Export according to Chinese methods (based on the country of destination criterion when in the Chinese inland)	Transshipment at Hong Kong to the United States (based on the country of destination criterion when in Hong Kong)	Import according to Chinese methods (based on the country of origin criterion when in the Chinese inland)	"Adjusted" trade imbalances of China
A	(1)	(2)	(3)	(4)=(1)-(3)
1988	33.8	55.4	66.3	22.9
1989	43.9	84.6	78.6	49.9
1990	51.8	104.7	65.9	90.6
1991	61.9	133.8	80.1	115.6

Source: the Customs Administration of China; trade statistics of Hong Kong.

Table 5. "Adjustments" of Imbalances in U.S.-China Trade (in hundreds of millions of U.S. dollars)

Year	Export according to U.S. methods (based on the country of destination criterion when in the United States)	Transshipment at Hong Kong to China (based on the country of destination criterion when in Hong Kong)	Import according to U.S. methods (based on the country of origin criterion when in the United States)	"Adjusted" U.S. trade imbalances
A	(1)	(2)	(3)	(4)=(1)-(2)-(3)
1988	50.3	12.3	85.1	-22.5
1989	58.1	13.2	119.9	-48.6
1990	48.1	13.2	152.2	-90.9
1991	62.9	17.1	189.8	-109.8

Source: the U.S. treasury Department; trade statistics of Hong Kong.

By contrasting Table 4 with Table 5, we can see: (1) the "adjusted" trade imbalance statistics of the two sides are rather close to each other; and (2) the value of Chinese goods transshipped at Hong Kong to the United States is several times larger than that of goods shipped directly from the Chinese inland to the United States, while the value of U.S. goods shipped directly to China is several times larger than that of U.S. goods transshipped at Hong Kong to China. Therefore, China has basis for emphasizing the factor of the criteria for determining trading partners in discussing the discrepancies between Chinese and United States statistics on bilateral trade. The United States should face this issue squarely.

3. It is not justifiable to include goods transshipped at Hong Kong in Chinese export

This author has produced Table 4 and 5 to show the critical impact of the Hong Kong transit trade on the discrepancies between trade statistics of China and the

United States. But, this does not mean that I advocate the method of "adjusting" trade imbalances. On the contrary, such "adjustment" not only lacks theoretical correctness, but also is impracticable. Transit trade is in the category of trading activities of a third country, and does not lead to "increase or decrease of the material resources" of the reporting country. Therefore, it should not be counted in terms of the reporting country's foreign trade statistics. At the time of departure of goods, no country's statistical authorities can know definitively whether the goods will be transshipped to a third country after arriving at the destination, let alone which country would be the third country. No country's statistical authorities can extend their country's statistical reach across the border with the transit country, so as to get "more comprehensive" statistical data.

On the other hand, even if China is willing and able to include the value of the goods transshipped at Hong

Kong to the United States in its volume of export to the United States in terms of "quality," it would not use, in terms of quantity, the value of China-originated goods transshipped at Hong Kong to the United States as announced by Hong Kong's statistical authorities, a value calculated on the basis of F.O.B prices in Hong Kong. This is so because Hong Kong and China have totally different country of origin regulations and practices of determining the country of origin. Assume that the methods for determining the country of origin are the same, and there would still be the problem of value appreciation for goods. Hong Kong statistics show the value of Chinese goods transshipped to the United States is calculated on the basis of F.O.B prices in Hong Kong—adding profits and costs of transshipment, storage, processing (which does not alter the goods in a basic way), and even reselling (that is, the so-called transit trade markup) onto the value calculated on the basis of C.I.F prices in the Chinese inland. In any case, it would be unfair for the United States to regard transit trade markup as part of the value of Chinese export.

4. The basic situation regarding Hong Kong transit trade

(1) The role of transit trade in the economy of Hong Kong

The economy of Hong Kong mainly relies on foreign trade and related activities, and transit trade is the main moving force sustaining Hong Kong's foreign trade. According to statistics, in '991, Hong Kong's total

volume of import and export trade was US\$198.1 billion, equal to 244 percent of the local GDP. This fully shows the externally oriented, dependent nature of Hong Kong's economy. In the decade 1981-1991, the local GDP of Hong Kong grew at an average annual rate of 6.2 percent, while the transit trade grew at an average annual rate of 22.6 percent, with 6.8 percent of the export consisting of local products. According to analysis, in 1991, Hong Kong's economy grew by 5 percent over 1990, with 2-3 percent of the growth coming from transit trade.

(2) The Hong Kong transit trade involving China

Since the founding of Hong Kong, the transit trade involving the Chinese inland has always been the major part of Hong Kong's transit trade. Since China's adoption of policies of reform and opening to the outside world, China-originated goods transshipped from Hong Kong to other countries increased greatly. The value of such goods was US\$460 million in 1978, and increased 88-fold by 1991, reaching US\$40.5 billion. The value of goods transshipped at Hong Kong to the Chinese inland increased 719-fold, from US\$27.4 million in 1978 to US\$19.7 billion in 1991. Calculated on the basis of the country of origin criterion, Chinese goods account for 59 percent of the goods transshipped at Hong Kong; calculated on the basis of the country of destination criterion, the Chinese market accounts for 29 percent of the goods. The statistics in Table 6 and 7 indicate that China occupies an extremely important position, whether in terms of the origin or destination of goods.

Table 6. Geographical Composition of Hong Kong Transit Trade in Terms of Country of Origin (percentage)

Year	China	Japan	Taiwan Province	United States	South Korea	EC
1980	28	20	7	10	3	7
1985	33	21	9	9	3	7
1990	58	10	7	6	3	5
1991	59	11	8	5	3	5

Source: trade statistics of Hong Kong.

Table 7. Geographical Composition of Hong Kong Transit Trade in Terms of Country of Destination (percentage)

Year	China	United States	South Korea	Japan	Taiwan Province	EC
1980	15	10	•	7	7	8
1985	44	14	1	5	4	5
1990	27	21	6	6	5	15
1991	29	21	6	6	5	16

Source: trade statistics of Hong Kong.

(3) The markup and markup rate involved in Hong Kong transit trade

It is difficult to estimate the markup and markup rate involved in the transshipment at Hong Kong of China-originated goods to the United States. The reason lies in the lack of reliable statistical data. Surely, the Statistical Office of Hong Kong prepares statistics on the markup involved in the transit trade, but the purpose of such

statistics is to calculate the value of the goods retained on the basis of the markup involved in the transit trade, in order to help calculate the local GDP. Therefore, such statistics are not suited for any other purposes.

The data-gathering methods regarding transit trade markup used by the Statistical Office of the Hong Kong government are as follows: Each year, survey would be done on a small sample of companies selected from all

the companies engaged in transit trade. Two groups of data would be gathered: A is the F.O.B value of goods transshipped to a third country; B is the C.I.F value of goods arriving at Hong Kong. The two groups of data would be put into different final-use categories (that is, the four categories of food, consumer goods, raw materials, and capital goods), but not into country-based categories. The following calculation formula is used:

Transit trade markup=A-B,
Rate of transit trade markup=[(A-B)/B]X100 percent

In fact, it is very difficult to get accurate data on transit trade markup. The main reasons are:

- 1) The reselling of transshipped goods. Goods can change hands several times after entering Hong Kong and before being shipped out. Transit traders would have no reporting problem on Category A, but would have reporting problem on Category B. They can only report the value of goods at the time they purchased the goods.
- 2) Disassembling and reassembling in the process of transshipment. A shipment of goods may be divided into many smaller batches, while many small batches of goods can also be put together into a large shipment.
- 3) Survey errors. Because of the sensitive nature of profits, transit traders tend to underreport transit trade markup.

At the present time, with regard to statistics on transit trade markup, there are not yet data on the country of origin or destination.

From the preceding discussion, we can see that the statistics Hong Kong is able to provide on transit trade markup do not have an acceptable degree of accuracy, and do not include such data as on the markup rate involved in transshipment of China-originated goods to the United States.

As disclosed by Hong Kong, the average transit trade markup rate was 15 percent in 1991. This figure is obviously too low with regard to Hong Kong businesses engaged in the transshipment of Chinese goods to the United States.

Ways of Resolving the Controversy Over Trade Imbalances Between China and the United States

The method of considering the country or origin as the trading partner currently used by many countries creates discrepancies between statistics of the two parties involved in situations of transit trade. With international economic and trade development, transit trade is becoming ever more brisk, and as a result the discrepancies between statistics of the two parties involved will grow. The fundamental way of resolving the discrepancies between trade statistics of the two parties involved is to change into considering the country of departure the

trading partner. The adoption of the country of departure/country of destination criteria for determining trading partners is fully consistent with the United Nations definition of international trading goods—that definition emphasizes the flow of goods which increases or reduces a country's material resources. In view of the importance of the concept of country of origin for trade regulation (in such cases as the Generalized System of Preferences and textile quotas), it is proper to adopt a dual-indicator system for import statistics, using import statistics based on the country of origin criterion for trade regulation, while using import statistics based on the country of departure criterion for comparing statistics of different countries.

It is surely difficult to make many countries of the world change their criteria for determining trading partners. In the short term, in order to resolve the disputes between China and the United State on trade imbalances, the two sides can be advised to prepare, in addition to country of origin statistics, also country of departure statistics for the special purpose of reconciling trade statistics of the two countries. According to a source, the United States has mechanisms for reconciling trade statistics with Canada, Japan and South Korea, respectively. Especially, the reconciling mechanisms between the United States and Canada have operated for nearly 20 years, and have improved during that period. The mechanisms have been doing a good coordinating job. If only China and the United States can proceed from considerations of the overall issue of developing trade and promoting friendship, they will surely be able to find a way to resolve the disputes over trade imbalances. China should present the proposal to establish trade statistics which reconciles mechanisms to the United States at an appropriate time.

Reconciling with the United States on disputes over trade imbalances will inevitably involve the issue of Hong Kong transit trade. The Chinese inland should enhance understanding and cooperation with Hong Kong, in an effort to prepare China for the Sino-U.S. talks by providing data which are as detailed and objective as possible. It is proper to advise Hong Kong to use, in addition to indicators currently used, statistical indicators helpful to understanding the triangular transit trade involving the Chinese inland, Hong Kong, and the United States, if conditions allow.

Developing Services Trade Under GATT

93CE0548D Beijing GUOJI SHANGBAO in Chinese
13 Apr 93 p 2

[Article by Lei Houfa (7191 0624 4099): "Developing Services Trade under GATT"]

[Text] As it prepares to rejoin the General Agreement on Tariffs and Trade [GATT] as one of its original signatories, China will inevitably face new opportunities and challenges under the General Agreement on Services Trade, which is part of GATT.

Opportunities belong to people who take up a challenge courageously.

Development enjoys the company of nations which are well prepared.

China should and must prepare its own intelligent response. Here I present my humble suggestions for reference purposes:

First, study GATT and the General Protocol on Services Trade in earnest so that we know others as well as ourselves.

GATT has been a cradle for the development of international law. Keeping abreast of the broad trends in international economic cooperation and trade development over the past half century, it has been amended, amplified, and improved successively. The Uruguay round of negotiations, in particular, includes not only such sensitive issues as textiles and agricultural products, but also puts the new topic of services trade at the forefront of international trade management. Having been cut off from GATT for almost 30 years, China is not as familiar with some of the trade practices under GATT as it should be. Now that the prospect of regaining our status as a signatory looms, China will find itself facing a number of new issues. Can we make our practices consistent with those of GATT in the shortest time possible so that domestic enterprises can promptly adapt to competition on the international market? To do that, the foremost thing is to study all documents pertaining to GATT, including the General Protocol on Services Trade. To begin with, we must thoroughly grasp the spirit behind the goals of GATT and its basic legal principles. From its experience in guiding trade, we can predict its prospective role in the services trade. Second, review the practical experience of all developing nations in GATT, in order to minimize the costs we have to pay. Third, using the practice of other nations as a guide, draw up a list of commitments along with a list of our own demands that are both consistent with the conditions at home and do not violate the principles of GATT. If necessary, we must learn to protect ourselves by using domestic laws properly. Fourth, educate the entire population about GATT and, with that as a base, instill the concept of the market economy in the consciousness of the people and make them more competition-minded. That will be a boost to our reform and open policy.

Second, work hard to implement a market diversification strategy.

China's services trade is underdeveloped. In addition, for a variety of reasons it trails many developing nations in international labor cooperation. That we still need to open up our services market under those circumstances only makes the challenge facing us even more daunting. In a certain sense, it can be said that we are trading one market for another. The burden of international economic and technical cooperation, of which labor cooperation makes up a major part, therefore, will be even heavier and come under additional pressure. There should be a stronger sense of urgency and realism about our strategic measures

and strategic focus. To begin with, we must truly appreciate the importance of the market diversification strategy. Some people today continue to think that the market diversification strategy has to do with foreign trade alone, with little implications for foreign economic work. Among other reasons, it is believed that one of the principal tasks of foreign economic work is to undertake foreign economic aid. No matter how fierce competition on the world market may be, foreign economic aid projects absolutely must not be sacrificed. This traditional concept of economic aid carries a lot of weight in some enterprises. Furthermore, China should decide on the strategic focus of its participation in international labor cooperation and its push for market diversification and formulate strategic measures and procedures that are more in line with reality. In light of the current trends in international project contracting and labor cooperation, we should make self-strengthening our goal, revolve around good-quality services, and take steady development as our prerequisite. Make the provision of high-quality services drive enterprise development. Beat our competition and corner the market on the strength of quality. Having achieved that, we should then gradually expand our target markets, develop potential markets, and never stop strengthening the enterprises, focusing on their profits, or enhancing their competitiveness. In regional market specialization, aim for multidirectional and multipurpose movements. In technical market specialization, participate in labor-intensive projects and knowledge-intensive projects depending on the level of development of the nation in question. As far as strategic steps are concerned, we would do well by combining manpower circulation with technical circulation at the present moment in hopes that it would lead to the exporting of equipment and technology. Later, the exporting of equipment and technology will take center stage, supplemented by the exporting of the necessary personnel. When that comes to pass, we will have brought about a qualitative quantum leap in international labor trade.

Third, speed up the pace of reform and the open policy and adjust the labor export policy.

To join GATT is to orient ourselves to the world. The key to whether we can beat our competition lies in our ability to forge ahead assiduously and step out of China courageously. Guarding our door and protecting ourselves stubbornly will be counterproductive in the end. Accordingly, we must follow an open labor export policy and simplify the procedures for project contracting as well as the formalities that labor and technical personnel must go through before they are cleared to leave China, thus institutionally creating a competitive edge. Transform the enterprise operating mechanism as soon as possible. In the past, an enterprise might have the technology, manpower, and equipment, but lacked operational power. That must be changed. Organize and nurture large-scale enterprise groups that bring together industry, trade, and technology under one roof. Pool together human, financial, and material resources to compete on the global market. At the same time, step up

the training of personnel in foreign economic work. In particular, upgrade the training of workers already equipped with certain skills (they will be the hands-on workers much sought after overseas in the near future) and raise the overall level of personnel sent abroad.

Top 500 Import/Export Enterprises Announced

93CE0548A Beijing JINGJI CANKAO BAO in Chinese
18 Apr 93 p 1

[Article by Bao Yueyang (0545 2588 7122): "Top 500 Import/Export Enterprises Announced"]

[Text] Using business data, the Ministry of Foreign Trade and Economic Cooperation and the GUOJI SHANGBAO She it operates have compiled a list of the nation's top 500 import/export enterprises for 1992. For the fourth year in a row, China Chemical Industrial Import and Export Corporation topped the list with imports and exports worth a total of \$7,987 billion. Twelve other enterprises each boasted more than \$1 billion in combined imports and exports last year. They are, in descending order, China Grain, Oil, and Food Import and Export Corporation, \$5,899 billion; China Metals and Mineral Products Import and Export Corporation, \$3,413 billion; China Textile Import and Export Corporation, \$2,745 billion; China Native and Livestock Products Import and Export Corporation, \$2,692 billion; China Technology Import and Export Corporation, \$2,393 billion; China Liaoning Chemicals Import and Export Corporation, \$2,390 billion; China Aviation Equipment Company, \$2,033 billion; China Electronic Import and Export Corporation, \$1,829 billion; China Machinery Import and Export Corporation, \$1,803 billion; China Metallurgical Import and Export Corporation, \$1,710 billion; China Arts and Crafts Import and Export Corporation, \$1,461 billion; and China Silk Import and Export Corporation, \$1,194 billion. While their rankings have changed slightly over the past four years, the top 13 companies have consistently led the pack. Altogether 224 enterprises reported imports and exports exceeding \$100 million in 1992, 46 more than the preceding year. The 500th company reported \$38.82 million in combined imports and exports, \$6.73 million more than the 1991 figure of \$32.09 million. This shows that as the nation's imports and exports grew, so did the scale of the enterprises' imports and exports.

The 500 enterprises are dominated by a variety of special foreign trade companies at the central and local levels, general foreign trade companies, production enterprises with the power to import and export, and companies engaged in local trade and border trade.

According to the report, customs statistics show that China's total imports and exports reached \$165.63 billion in 1992, the 11th highest in the world. After discounting duplicated numbers, the 500 companies accounted for about 66.3 percent of the nation's total imports and exports, specifically 61 percent of exports and 74 percent of imports.

Suggestions for Foreign Trade Reform

93CE0548B Beijing JINGJI RIBAO in Chinese
2 Apr 93 p 7

[Article by He Tongxin (6320 0681 2450): "Suggestions for Foreign Trade Reform"]

[Text] Since reform began and the open policy went under way, much headway has been made in foreign trade reform in China. Nevertheless, continuing decontrol is needed in these several areas.

First, decontrol commodity circulation more boldly. Since reform began and the open policy went under way, foreign trade has grown rapidly. Be that as it may, China's foreign trade dependency and per capita exports are still far below the world's averages. These days China's import system is a much-discussed issue in the international community. It is thought that it contains stiff tariff and nontariff barriers, is too complicated, and is not open enough. In fact, the circulation of Chinese exports is also strewn with hurdles. Take the power to import and export, for instance. Not all industrial and commercial concerns are authorized to engage in importing and exporting. Many large and mid-sized production enterprises lack the power to directly orient themselves to the international market. Second, the management of the quota permit system. The scope of the quota permit management system is defined too loosely and distribution is not made public. Noneconomic factors have prevented economic potential from being fully tapped. Third, the tax issue as it affects foreign trade enterprises. Instead of paying taxes, export enterprises nowadays still are required to turn over foreign exchange. The low negotiated prices of foreign exchange fluctuate extensively and there is no uniformity in how much enterprises are required to turn over to the state. This causes an unequal distribution of costs and benefits in foreign trade, which dampens the enthusiasm of export enterprises. Fourth, problems related to quality control and customs inspection. Some commercial inspection standards have not been brought in line with the international level. Sometimes the merchandise is acceptable to the customers, only to be rejected by commercial inspection. On other occasions, the merchandise passes muster with commercial inspection only to be returned by the customer. There are situations in which the government is called upon to ensure good quality when that should have been the responsibility of the enterprise. Fifth, transportation. Containerized freeway traffic is underdeveloped. There is a rail undercapacity. We can thus see that whether we are talking about the tangible or intangible environment, there is so much to be done to decontrol commodity circulation.

Second, decontrol manpower circulation more boldly. Compared to the circulation of imports and exports, manpower circulation both inside and outside China is even more circumscribed. To conduct commodity trade alone, we need to set up marketing and sales networks,

repair and maintenance points, redistribution warehouses, and assembly shops overseas. If conditions allow, we should also enter the multilateral, multinational trade. Besides commodity trade, there are project contracting, labor export, and activities in a broad range of economic and technical cooperation. Currently international services trade, which is based on labor exports, embraces 150 areas, including banking, insurance, transportation, construction, tourism, law, accounting, and consulting. The ratio between international trade in services and commodity trade is 0.3:1, even higher in developed nations. In Britain, for instance, the ratio between labor and service exports and commodity exports was 0.99:1 in 1985. Corresponding figures for the United States and Germany were 0.67:1 and 0.61:1, respectively. In China, on the other hand, the service trade to commodity trade ratio is less than 0.04:1. We have more than 8 million scientists and engineers and a considerable number of technical patents. In this area, so much can be done that will benefit both sides.

Third, decontrol capital circulation even more boldly. There is a glaring weakness in capital circulation both at home and abroad, namely stringent foreign exchange control. The renminbi and foreign exchange are not freely convertible. Monetary immobility causes at least three major problems. First, there is lacking from renminbi the pursuit of rigidity inherent in the pressure generated by the free convertibility of an international currency. As a result, it is impossible to form mechanisms that accommodate both the domestic and international markets, that help restrain exchange rate adjustments, that help balance the difference in profits between domestic trade and foreign trade, and that help determine the way enterprises are run. Second, importing and exporting, domestic sales and foreign sales, are not closely integrated. It is difficult to take advantage of a favorable situation and switch from one to the other. For instance, after an enterprise exports its merchandise and earns some foreign exchange, it must import promptly since foreign exchange cannot circulate at home. Even if the domestic interest rates are high at that point in time, the enterprises cannot take advantage of them. At the import end, an enterprise is required to turn over foreign exchange to the state, with the latter deciding from scratch where such foreign exchange is to go to and how it is to be spent. Even as the enterprise turns over foreign exchange, it has to apply for it. An enterprise has to secure approval layer after layer for reasons that have nothing to do with economics. This slows down importing and the spending of foreign exchange. Third, it is difficult to export capital directly, particularly private capital. China is a developing nation. It needs to invest overseas and develop multinational corporations as well as attract foreign capital on a large scale. Building plants abroad not only can pave the way for the export of machinery, equipment, technology, and labor, but it will also enable our goods to bypass some tariff and nontariff barriers and make their way into regions and economic blocs that are deeply protectionist while eliminating a good deal of trade conflicts. In

China, however, the process of getting permission to export state capital is highly cumbersome. Private capital has increased sharply in recent years, but the fact that domestic and foreign currencies are not freely convertible has complicated its internationalization, thus limiting the development of both the domestic and the international markets.

Using Tariffs To Protect Infant Industries

93CE0443A Kunming JINGJI WENTI TANSUO
[INQUIRY INTO ECONOMIC PROBLEMS]
in Chinese No 127, 10 Mar 93 pp 31-33

[Article by Liu Lei (0491 4320) and Lin Wengao (2651 2439 7550), graduate students in the Finance Department, Xiamen University: "Adjustment of State Tariff Policy; Return to GATT and Us"]

[Excerpt] [passage omitted] Although GATT forbids the erection of tariff barriers, it permits its signatory nations to make use of a protective tariff policy. According to their modes, protective tariffs are divided into ordinary protective tariffs and special protective tariffs. Ordinary protective tariffs give priority to protecting domestic infant industries, and so their tariff rates' objective is to contain the competitive importation of foreign commodities. China belongs to the group of developing countries, and, in line with GATT's provisions for exceptions, it can pursue a policy of imposing ordinary protective tariffs for its domestic infant industries. These infant industries include new industries; new production departments in existing industries; and the major industrial departments in existing industries that are rebuilding, that are expanding to supply domestic demand, or that were destroyed by natural disasters. Special protective tariffs are tariffs levied to attain specific goals, e.g., antidumping tariffs, antisubsidy tariffs, and retaliatory tariffs. The relevant articles of GATT permit the use of special protective tariffs, e.g., Article 6 stipulates that, under certain conditions, antidumping tariffs and antisubsidy tariffs can be levied; Article 18 stipulates that tariff protection can be used to ensure the international balance of payments; Article 19 stipulates that, when the imported quantity of a certain commodity causes serious damage or the threat of serious damage to a domestic producer, the party to the treaty can adopt the method of raising the tariff on it or other methods that take emergency measures to restrict it; etc. China can make full use of these articles to effect special protection of its domestic market. In line with the principles of GATT, each signatory party to the treaty can make tariffs the sole means of protection. Within a certain period after China returns to GATT, the adoption of a protective tariff policy will have a special significance for China: First, it can guide, help, and protect the development of domestic infant industries, and prevent China's national industry from being harmed. Second, it will cause domestic resources to be fully used, and will increase employment opportunities and domestic financial revenue. Third, through restricting the importation of foreign goods, the use by domestic consumers of Chinese

goods and the production of Chinese goods will be stimulated, new investment will be guided, and economic prosperity will be promoted. Fourth, it can prevent the dumping of foreign commodities, and can maintain or stabilize the domestic wage level. Fifth, it can be a powerful tool for China's participation in international trade talks, and can prevent harm to China's economic interests.

However, in the long term, China should gradually open up its domestic market, pursue a free trade policy, and reduce the degree of tariff protection. This is GATT's demand, and it is also in line with the direction of China's economic development. Again, the protective tariff policy is a policy that also has a certain negative effect, because: First, the protective tariff policy goes against the principle of comparative interests. Following the organic development of the world economy, there was a demand proceeding from the principle of efficiency, for the optimum disposition of resources across national borders, and protective tariffs harm the principle of efficiency. Second, although protective tariffs can reduce the domestic competition by foreign products, what they protect is the low return and high waste in the production of domestic enterprises. The inevitable result will be the slowing of economic development, an inability to improve the production structure, and the production forces' remaining for a long time in a backward state. Third, this country's export products could suffer a retaliation by another country's protective tariffs, or because the amount of Chinese currency held by a foreign country is small it will be difficult for it to buy China's export commodities. Fourth, the greater part of tariffs are a burden on the domestic consumer. Protective tariffs, in order to cut down the competitive power of foreign commodities on the domestic market, raise the prices of foreign commodities that are of superior quality and lower price, thereby harming the interests of the domestic consumer.

III. Free Tariff Policy

A free tariff policy is a policy that lowers tariffs, or exempts the payment of tariffs, and that promotes the free development of international trade; therefore, it is also called a free trade policy. Western economists think that society's industrial activity is restricted by how much capital there is; a protection policy only safeguards certain specific industries in the economy, and its price is the sacrifice of other industries and an inevitable decrease in national income. With the freedom of trade, the optimum disposition of resources worldwide, and the speed of the growth of capital, because they reflect the acceleration of the natural demand for social development, there will be an inevitable growth of national income. After the sixties and seventies, following the organic development of the international economy, the free trade policy drew a lot of attention and led to the organizational forms of free trade zones, tariff alliances, and common markets.

The free tariff policy represents GATT's purpose, and is also the direction for the long-term development of China's tariff policy. After reform and opening up to the

outside world began, China established zones and factories that possessed certain free trade characteristics, such as special economic zones, economic technology development zones, manufactured products processing zones, protective tariff zones, and protective tariff factories. They have displayed powerful vitality and have become the vanguard of China's economic development. China's tariff policy should gradually draw close to a free tariff policy, because: First, it meets the objective demand for development of the national economy, promotes the full use of the world's existing resources in line with the principle of comparative interests, effects the international division of work, and increases a country's national income. Second, it is helpful for promoting and improving production technology, raising production and management efficiency, and curbing waste. Third, it can increase and expand the welfare of the consumer, and it suits the objectives of production. Obviously, a free tariff policy is beneficial to the country, the producer, and the consumer, and is a policy that has good prospects for developing the economy.

However, from a look at the present time and the near future, China does not possess any of the conditions for implementing this policy. A free tariff policy needs to be established on the basis of a mature market and a developed economy. With free competition as its principle, it is totally a case of the survival of the fittest. The direction for China's development of a market economy has just been determined, and the market mechanisms are not yet mature. Economic development is fairly backward, and for a long time the markets and the enterprises will remain under the protection of a closed or semiclosed environment. It is impossible for the greater part of the trades and enterprises to contend with large foreign enterprises that have advanced technology and management. If all of a sudden the protection of tariffs were to be completely eliminated, there would be widespread bankruptcy and closure of domestic enterprises, and even the collapse of the entire national economy. Therefore, for a considerable time after China returns to GATT, it will need to make full use of GATT's relevant exemption and guarantee articles, in order to give a certain degree of protection to domestic industries and markets. Therefore, the free tariff policy is only a direction for long-term development.

POPULATION

Renewed Emphasis on Family Planning

93CE0560A ZHONGGUO RENKOU BAO in Chinese
19 Apr 93 p 3

[Article by Chen Tong (7115 4827): "Examination of New Avenues for Planned Parenthood Work That Are in Keeping With a Market Economy"]

[Excerpts] [passage omitted] Market Economy: Power House for Planned Parenthood Work

1. Development of a market economy will spur changes in the make-up of rural industry that will provide favorable conditions for effective control of population growth. As the labor productivity rate rises and the industrial structure changes, large numbers of people in the primary industry will move into secondary and tertiary industries for a quickening of the movement of the rural population into nonagricultural pursuits. Moreover, the development of rural township and town industrial concerns and the perfection of a socialized service system will inevitably bring about a change from the substance level to the comfortably well-off level in the standard of living of the broad masses of peasants, their material life gradually becoming more opulent and their spiritual life becoming richer. Once the peasants standard of living improves, nagging worries about the need to bear children as a hedge against old age will diminish.
2. Development of a market economy will help increase the employment rate of rural women, thereby bringing about a decline in the birth rate. The flourishing of rural secondary and tertiary industries objectively provides women with more scope for their abilities. Rise in the value of female labor will help improve women's socioeconomic position. In addition, it will help dilute rural ideas that value males more than females. At the same time, competition in the operation of a market economy will objectively also require that the broad masses of women work actively to get ahead. They will strive to improve their own educational level, and this will effectively lower the early marriage rate and the birth rate.
3. Development of a market economy will spur development of education and of social security. The establishment of a socialist market economy system will open broad avenues for hundreds of millions of peasants to become wealthy. At the same time, it will also help strengthen the collective economy and give impetus to the development of rural education and social security. In recent years, every jurisdiction has done much to develop planned parenthood serial insurance. They have striven to provide old age social security for gradual solution to the problem of being care for in old age. Thus many peasants have changed their former ideas about "many sons mean much prosperity," and "rearing of children as a hedge against old age."

Clearly, the development of a market economy will have a profound effect on people's way of life, the ideals they pursue, and their ideas about childbearing. It will spur the development of social endeavors of all kinds, and weaken the childbearing function of families. This series of changes will provide more favorable economic and social conditions for our future strict control of population increase.

Grim Situation and New Problems Faced

In recent years, China has contained the impetus toward upturn in the birthrate. To a certain extent, this has

eased the conflict between overly rapid population increase and lack of attendant economic and social development. However, we must take a clear look at the following several problems that cannot be ignored:

1. China's population increase situation remains extremely serious.

According to published State Statistical Bureau data, as of 1992 the population of mainland China was 1.17171 billion for a net 13.48 million increase from the previous year. China's population base figure is large, and now the country is facing the third population birth peak since founding of the people's republic. This peak began in 1986 and will continue until the end of the present century. The overly high population increase remains a heavy burden for the country's economic and social development.

2. Great unevenness in planned parenthood work nationwide.

Economic, cultural, and social factors in China make inevitable the occurrence of numerous contradictions and difficulties in carrying out planned parenthood and in controlling population increase. Party and government leaders in some jurisdictions lack the understanding they should have about the importance and urgency of planned parenthood work. They do not devote close attention to this work nor take required actions. In a fairly large number of places, work at the village grassroots level is weak, money for planned parenthood work is lacking, continuity is lacking in the planned parenthood corps, and technical services have not kept pace. These are also important factors hurting the development of planned parenthood work.

3. Development of a market economy will deliver a series of shocks to the planned parenthood control system.
- Development of a market economy will quicken the pace of population movement and population shift. As a result of the large number of peasants entering cities to work or do business, the number of people away from home is increasing making control of marriages and births more difficult.

The establishment of a market economy will give further impetus to the further development of the three kinds of partially or wholly foreign-owned enterprises, and privately owned enterprises. A very large percentage of the people that these enterprises hire will be women of childbearing age. A substantial portion of three kinds of partially or wholly foreign-owned enterprises and privately owned enterprises are not geared up for planned parenthood work.

Changes in the operating mechanisms of enterprises under ownership of the whole people and changes in

government control functions attending the advent of a market economy will mean a decrease in planned parenthood control personnel in some units. Following economic contracting, some units will be unable to provide single child women the benefits they are supposed to enjoy.

As a result of intense market competition and the rise of tertiary industries, the number of personnel retained without salaries in party and government organs and entrepreneurial units is increasing daily. The number of idle people in society is on the increase, and large numbers of city and town residents have changed residence to produce a situation in which people are away from their registered households. This situation presents new difficulties for urban planned parenthood work, which was formerly controlled in an orderly way.

4. The planned parenthood cadre corps faces new challenges.

The socialist market economy tide is surging, producing an impact in every field. Everyone will be consciously or unconsciously enveloped in the boundless ocean of the market economy and be put to new tests. The ideals and beliefs of the planned parenthood cadre corps are facing new challenges. The market economy must abide by the principles of competition and profit seeking. This means that material benefits hold tremendous attraction, which may lead to rampant ideas of regarding everything in money terms. Some cadres whose convictions are not firm and whose Party spirit is weak may change their spirit of selfless contribution to the pursuit of material gain. They may even care only about material gain and not care about principles. They may care only about money and wealth and not care about making a contribution, abusing their authority for private gain and violating the law and party discipline. Attracted by the high pay and high welfare benefits around them, the continuity of the planned parenthood cadre corps may be impaired somewhat.

In short, the founding of a socialist market economy system will strongly advance the development of productivity, and will have a positive effect on planned parenthood work. At the same time, however, it will occasion new situations and new contradictions for planned parenthood work. [passage omitted]

Planned parenthood is a piece of social systems engineering. Complete harnessing of the population problem entails Party and government leaders working as one in the discharge of their duties; all quarters of society coordinating closely to make common cause; close coordination of policy actions and enhanced mechanisms; and pervasive reform of planned parenthood units, curing problems at their sources in four regards.

1. CPC committees and government at all levels must discharge their functions to the full to bring the population problem under complete control.

The key to implementation of the basic national policy lies in a high degree of serious attention on the part of both Party CPC committees and government, specifically personal attention by all party and government leaders, and the need to take full responsibility for genuine improvement of the leadership of planned parenthood work.

2. All government departments and mass organizations concerned must closely coordinate, make concerted efforts, and cooperate closely for the common cause under centralized leadership of the CPC committee and government to do planned parenthood work.

Close cooperation for the common cause is an extremely important component for comprehensive solution to the population problem. Even though government units concerned made contributions to planned parenthood work in the past, given the serious population situation today, coordination among all units must be further improved. In addition, in view of the new situations and new problems accompanying development of a socialist market economy, the level of comprehensive control must be increased. All departments must unify understanding, make a clear-cut division of labor, define responsibilities, and work together to form a united front for planned parenthood work.

3. Establishment and improvement of benefit guidance mechanisms, drawing up coordinated policies and measures in order to follow a course of integrated development of population, the economy, the society, and the environment.

Coordinated policies and measures are a fundamental component for total solution of the population problem. Under present economic and social conditions, when strict control of population growth is required, social restraint mechanisms positively cannot be overlooked. Prevailing childbirth policies must be fully carried out. Obviously, sole reliance on social restraint mechanisms and administrative interference is not very likely to move planned parenthood work in the direction of the "three things first." [san wei zhu [0005 3634 0031]. Energies must be devoted to building and perfecting a benefits guidance mechanism. Every jurisdiction has many successful experiences in this regard:

- In the course of its rural planned parenthood work, Jilin Province did some "three-in-one" systems engineering that encompassed production, childbearing, and daily life. This "three-in-one" widened perspectives on population and planned parenthood work.

Sheyang County in Jiangsu Province helped the peasants found "few births rapid prosperity" cooperatives, peasant households that practiced planned parenthood being taken into the cooperative. Reliance on collective economic strength of such cooperatives helped members become wealthy faster.

Yingxian County in Shandong Province, and Yangxian County in Fujian Province relied on grassroots planned

parenthood associations. They operated various kinds of economic entities that not only helped peasants escape poverty, but also heightened public consciousness about planned parenthood.

Zhaoan and Longhai counties in Fujian Province ran "three associations in one" in rural villages, which bound together in a single association the planned parenthood association, the old people's association, and the association concerned with the next generation. This organization employed the founding of economic entities, planned parenthood foundations, and the organization of old people's clubs to give vigorous impetus to rural planned parenthood work. These actions very well solved the problem of "the old being taken care of, the old being able to enjoy themselves, and the old having something to do." [passage omitted]

4. Planned parenthood units must emancipate thinking, broaden their thinking, and constantly intensify reform of planned parenthood work.

Intensification of planned parenthood work reform is an urgent task for planned parenthood units at all levels. The orientation for reform is gradual establishment of a new distinctively Chinese planned parenthood control system that is in keeping with reform and opening to the outside world and a socialist market economy.

Reform of planned parenthood work must cure both the symptoms of the problem and the root causes of the problem. Work on the symptoms includes strict control of population growth, greater control before marriage and before pregnancies occur, efforts made to reduce early marriage, early childbearing, and unplanned births. Work on the root causes includes efforts to improve population quality and better propaganda and services to make people more conscious about practicing planned parenthood. At the present time, planned parenthood must urgently solve the following several problems.

- Make planned parenthood units more capable. For various reasons, the overall quality of planned parenthood cadres today leaves much to be desired. Under the new circumstances, governments at all levels must truly improve their planned parenthood control organizations, add more personnel to them, improve cadre training, and improve the theoretical understanding and abilities of personnel. At the same time, governments at all levels must improve planned parenthood cadres' living conditions and work conditions.

Perfection of the planned parenthood statistical system. The accuracy of statistics can directly affect scientific decision making and scientific control of planned parenthood. All jurisdictions must improve the training and testing of statistical personnel. They must protect the relative independence and authoritativeness of population statistics, avoiding improper administrative interference with them; and they must invest more money, striving to computerize the collation and handling of data.

Better networking, actively exploring scientific means of planned parenthood control. The system of control that centers around place of household registration must be changed to one that centers around place of residence for genuine improvement of floating population planned parenthood control. The system of "a minority doing the work of the majority" has to be changed to "a majority of the people doing the work of a minority," an effort made to amplify grassroots planned parenthood associations to make full advantage of the group advantages that associations possess. Emphasis must also be changed from before and after delivery control to control before conception.

AGRICULTURE

Purchase Prices for Agricultural By-Products in 1992

93CE0424B Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 3, Mar 93 pp 17-18

[Article by Ren Caifang (0117 2088 2455), Pan Jiancheng (3382 1696 2052), and Wang Xiaohong (3769 2556 4767), affiliated with the Urban Survey Team's Circulation Office at the State Statistical Bureau: "1992 Purchase Prices for Agricultural By-Products"]

[Text] In 1992, agricultural by-product circulation channels further expanded, purchase and sale markets became increasingly brisker, and purchase prices reversed their two consecutive years of decline, starting a steady rebound in the first quarter, with agricultural by-product purchase prices up 3.4 percent for the year.

1. Grain Purchase Prices Clearly Rebounded, Along With Glaring Structural Conflicts

Affected mainly by policy price adjustments and brisker demand for some varieties, 1992 grain purchase prices were up 5.3 percent from 1991. This included increases of 10.3 percent for wheat, as well as 8.2 percent for corn, 19.5 percent for soybeans, and 30.5 percent for mung beans, as these latter three crops sustained disasters that lowered output, were subject to more exporting, and were in greater demand due to growth of the feed and food processing industries. On the other hand, while rice purchase-order prices went up about 14 percent, factors, such as fund shortages and poor sales, finally lowered prices sharply, resulting in a 3-percent decrease in overall average rice prices, including round-grained nonglutinous rice remaining steady in price, long-grained nonglutinous rice down 3.9 percent, and glutinous rice down 12 percent. Grain price fluctuation varied sharply by region, rising in three-fourths of the regions throughout China, with double-digit increases concentrated in 10 northern mostly wheat- and corn-producing provinces, such as Hebei, Heilongjiang, Shandong, Henan, Shaanxi, and Gansu, and falling mainly in the southern rice-producing provinces of Hunan (down 13 percent), Jiangxi (down 6.2 percent), and Hubei (down 2.3 percent).

In 1992, some regions conducted grain price-deregulation experiments. Once grain purchase and sales prices were deregulated, sales prices were steady and markets normal, while purchase prices, purchase volume, and grain-cultivation efficiency all declined sharply. This was due to the grain-purchase sector being short of funds and storage space, so acting in its own interests, by basing orders on sales, and through cutting purchase volume in a planned way. In 1992, early rice purchase orders were down from years of 70 percent to only 50 percent of overall orders, special reserves of early rice were ended, and some purchasing departments also restricted or refused purchases of negotiated-purchase grain, which further sharpened selling difficulties. In Xianning City, Hubei Province, 1992 grain-sector grain purchases were down 22 percent from 1991 and, once grain prices were deregulated in October, some purchasing departments even closed down their scales and refused to purchase for one to two months. In addition, glaring variety structural-conflicts appeared. As early rice was poor in quality and taste, it was poorly received by consumers and severely overstocked, so that its price fell sharply. The eight mainly early-rice-producing provinces, such as Hunan and Jiangxi, had (husked) rice inventories of 21 million tons, 70 percent of which was polished long-grained nonglutinous rice. Once Jiangxi Province deregulated grain prices, early rice prices dropped to about 36 yuan per kg, down one-third from 1991 and even 2-4 yuan below cost. Late rice prices also fell to about 50 yuan per kg, down one-quarter. This sharp drop in grain-cultivation efficiency brought peasants lower returns for higher output. For instance, Hunan peasants needed subsidies of 10-18 yuan per 100 kg of rice output and, while Fengcheng City, Jiangxi Province saw grain output up 3.1 percent, the drop in grain prices brought peasants 70 million yuan less income, or an average of 100 yuan less per household. The peasant response to this was very sharp, with large-scale abandonment of fields and withdrawal from cultivation.

II. Cash Crop Purchase Prices Were Down for the First Time in Three Years, With a Marked Decline in Cotton and Sugar Prices

After two consecutive years of sharp increases, cash crop purchase prices began to fall in the first quarter of 1992, ending down an average of 3.5 percent for the year. Cotton market sales were slow, bringing a 5-percent drop in purchase prices, with a severe shortage of purchase funds, a widespread phenomenon of "white slips," glaring "cotton-selling difficulties," and sharp losses for cotton farmers. For instance, Shandong cotton farmers earned 4.2 billion yuan less from cotton cultivation in 1992 than in 1991, or 61 yuan less per capita, so dampening their cotton-cultivation initiative that the area sown to cotton in 1993 was down 35 percent, making it the lowest year for cotton-cultivation area since 1982. As sugar and oil-bearing crops were subject to market supply exceeding demand and severe overstocking, their purchase prices were down 9.2 percent and 4.2 percent, respectively, from 1991. While tobacco

prices remained steady, hemp and tea saw lower output in major producing areas and higher international and domestic demand, thus rose in price 10.5 percent and 11.2 percent, respectively, from 1991.

III. Poultry and Livestock Purchase Prices Rebounded Quickly

Affected by rapid economic growth, demand pulled poultry and livestock purchase prices to a rapid recovery, up overall 6.3 percent from 1991, with higher purchase-price increases for cattle, sheep, and hides, up 10.8 percent, 22.9 percent, and 17.6 percent, respectively.

In comparison to the same periods in 1991, hog prices rose each quarter, with quarterly increases of 3.6 percent, 4.5 percent, 6.2 percent, and 9.8 percent, respectively, up 6.3 percent for the year. The major reasons for hog price increases were operating and pricing deregulation, open circulation channels, higher consumption, and increased exports. Hog purchase prices were up a high of 18.7 percent, 31.6 percent, 32.4 percent, and 37.8 percent, respectively, in the border provinces of Heilongjiang, Yunnan, Xinjiang, and Qinghai. Hog prices were down only in the three provinces of Liaoning (down 2.1 percent), Shandong (down 6.1 percent), and Guizhou (down 17.4 percent), mainly due to higher feed prices, making peasants feel that the price ratio between hogs and grain was irrational, dampening hog-rearing initiative, and causing large-scale sales of fattened hogs and slaughtering of piglets.

IV. Dried and Fresh Vegetable, and Spice and Drug Prices Continued To Rise; While Silkworm Cocoon and Silk and Dried and Fresh Fruit Prices Dropped Sharply

Due to lower output in 1991, empty stocks, and little increase in output in 1992, the major dried and fresh vegetable varieties remained high in price. The worldwide drop in output, supply shortages, and brisk demand brought a wave of price increases for spices, up 91.3 percent, including a sharp rise of 190 percent in the purchase price of anise, bringing a sharp rise of 17.3 percent in the purchase prices of dried and fresh vegetables and spices. Drug market prices were volatile, with another rise of 14.8 percent following on one of 15.9 percent in 1991. The bigger increases were for safflower (94.4 percent), honeysuckle (80.9 percent), and the rhizome of large-headed atractylodes (78.3 percent), while the varieties that dropped in price were mainly ginseng (down 11 percent), the rhizome of chuanxiong (down 14.2 percent), and pilose antler (down 18 percent). Industrial paints, local by-products, and aquatic products rose in purchase price 8.1-12.6 percent. Silkworm cocoons and silk, and dried and fresh fruits, saw supply and demand imbalances, with purchase prices down 4.3 percent and 7.2 percent, respectively.

Adjusted figures show that the 3.4 percent higher purchase prices for agricultural by-products in 1992 brought peasants 11.22 billion yuan in increased income. And rural market trade prices rose 2.4 percent, bringing peasants another 2.56 billion yuan in increased income

from sales of agricultural products to nonagricultural residents, with the two increases adding up to 13.78 billion yuan. As rural manufactured goods retail prices rose 3.1 percent, peasants had increased expenditures of 15.4 billion yuan (including extra expenditures of 4.77

billion yuan due to a 3.7 percent rise in the prices of agricultural capital goods). So on balance, peasants had increased expenditures in 1992 of 1.62 billion yuan, or 1.8 yuan per capita, due to price changes for industrial goods and agricultural products.

Wang Meng, Other Writers Attack Leftist Influence

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[MING PAO MONTHLY] in Chinese
No 4, Apr 93 pp 18-22

[Report on interviews with famous Chinese writers by unnamed MING PAO YUE-KAN reporter(s) in Beijing; dates not given: "An Anti-Leftist Call by Mainland Chinese Writers During the Eighth NPC [National People's Congress]"]

[Text] Wang Meng: The Central Government Should Consider the Influence of "Leftists" and Conservative Forces in China's Literature and Art System

Former PRC Minister of Culture and current CPPCC [Chinese People's Political Consultative Conference] member Wang Meng told this MING PAO YUE-KAN reporter in an interview that the Central Government needs to pay attention to the influence of "leftists" and conservative forces in China's current system of literature and art. He said for example that while many mainland Chinese theatrical companies are trying to change their management systems in ways, such as proposing the establishment of a "literature and art oversight" system, they are actually coming under attack by certain VIPs in the Chinese literature and art world, who say that such things come from Hong Kong and should not be taken up on the mainland. He says that "in which case, all mainland cadre titles should obviously be changed to ones, such as 'Circuit Intendent' and 'Dynastic Minister.'"

Wang Meng goes on to point out that: Certain officials in mainland China's China Writers Association and All-China Federation of Literary and Art Circles are keen on only their "small circle of friends," which is adverse to unity. It is only when the whole literary and art world unite as one that mainland China's literary affairs are run well. The key to this is making efforts to achieve a harmonious atmosphere, not creating artificial tensions.

Wang Meng speaks to literary and art reform as follows: While this matter is quite complex, and even more chaotic at present, lacking overall consideration and comprehensive research, it would be unrealistic and in fact impossible to even think that it could be resolved by a few NPC [National People's Congress] sessions. For instance, while the China Writers Association ought to be holding regular council and presidium meetings, it in fact can go three years without them, with just a few making all of the decisions, which is basically out of line with the will of the majority of writers.

Wang Meng also discloses that: CPC Politburo Standing Committee Member Li Ruihuan's speech in Inner Mongolia, that literary works must not be interfered with as long as they do not violate the constitution, has been included in the recent Central Government Document #9. The Central Government's current emphasis on

"unity" in the literary and art world is a good phenomenon, being invariably better than stressing criticism and struggle.

As to why mainland China is still not producing "world-shaking works," Wang Meng responds resolutely that: "This depends solely on the individual. No one can be blamed but ourselves. Except for the harsh political climate during the 'cultural revolution,' it should be noted that this is due to individual writer quality."

And as to the impact of a market economy on mainland Chinese writers, Wang Meng says that: This will reduce the force of administrative interference. Writers also need to establish the right market mentality. While the current abandonment of literature and art for business in mainland China involves only a few, it is bound to have an impact on the appearance of penetrating literary and art works. While no one is likely to produce works that are too highbrow to be popular, literary value cannot depend solely on money, just as writers must not make their choices based on income. Truly promising writers will not be trapped by money, as literary strivings are for spiritual value, so that mainland Chinese writers ought to strive to focus their creativity on their own innermost wishes and ideas.

Zhang Jie: While Things Have Eased Economically, They Are Strictly Controlled Ideologically

The famous female writer Zhang Jie [1728 3381] noted in a special interview with this reporter that: As the current NPC and CPPCC, just as last year's 14th CPC Congress, are all focused mainly on economic issues, they are not expected to bring any major breakthroughs in the field of literature and art. This also reflects Deng Xiaoping's consistent thinking of economic easing with strict ideological control. In particular, as ultra-leftists are now in control of the China Writers Association, writers dare even less to have any inordinate hopes of policy relaxation.

But Zhang Jie also notes that: The current creative climate on mainland China is in any case much more relaxed than during Mao Zedong's time, so that pressure and suffering are not necessarily the driving force behind and source of creativity for Chinese writers. And this more relaxed atmosphere is due to writers themselves taking on more intellectual freedom. But in comparison, *Zhang Jie feels pity for her colleagues who are in exile abroad because, while they have left the climate of pressure, they have also left at the same time their own readers and creative roots.*

As to the current fad of writers "jumping into the sea of business," Zhang Jie certainly has no objections, simply saying that "it is up to individual will." She says that she herself is certainly not very money-oriented, being satisfied with merely not having to worry about the basic necessities. *She also favors the state no longer supporting writers, but only premised on ensuring writers' freedom to publish, instead of prohibiting certain writers' works due to*

political reasons, in that a writer with no salary plus prohibitions against publication of his works is certainly in a dead end.

Despite the recent repeated calls for "stronger unity" in the literary and art world by Central Committee Propaganda Department Director Ding Guan'gen [0002 7070 2704] and Acting Minister of Culture Liu Zhongde [0491 1813 1795], Zhang Jie says that certainly none of the officials in the field who she knows are working with writers. At the 1993 Lantern Festival evening held in Zhongnanhai for writers and artists by the senior CPC leadership, not one writer was invited, except for Wang Meng in his capacity as former Minister of Culture.

As to cultural exchanges with foreigners, Zhang Jie notes that while there is much interference, it does not present an insurmountable problem. While the U.S.-China Writers Regular Exchange Plan that she began and organized with the famous U.S. author (Harrison) Salisbury has been suspended due to political influence, they still maintain private contacts. She says that the cultural and literary exchanges that were organized before 1989 between the various embassies in China and the China Writers Association have now been changed to individual contacts organized between embassies and the writers themselves. *The most troubling thing to Zhang Jie is that all of her many plans to travel abroad for cultural exchanges in the last three years have had to be shelved due to the endless formalities, which she blames on intentional obstructionism by concerned parties. She even wrote a letter to Deng Xiaoping last July asking his help in this matter.* She has been invited to take part in a cultural exchange in Singapore this May, for which the formalities are now being handled, to the results of which she is taking a "wait and see" approach.

As to the international standing of Chinese literary works, Zhang Jie notes that the problem is mostly a language barrier, in that much Chinese charm is lost in translation, affecting the international standing of Chinese writers. While her works are available in translation in almost all European countries, some of these translations are very poor. Zhang Jie also acknowledges that as her works are slightly Westernized, they may be less acceptable to Hong Kong readers.

Feng Jicai: Creative Freedom Needs To Be Guaranteed in Law

Feng Jicai [7458 7535 2088], the famous mainland Chinese writer from Tianjin, is a delegate to the Eighth CPPCC, who said in an interview with this reporter that since mainland China has gone to a market economy, literary works have changed from the former buyer's market to a seller's market, with equal opportunities for all to go into business, so that changing one's profession to business is beyond reproach. But as to the vigorous urging by the China Writers Association deputy party secretary and standing association secretary Malaqinfu [3854 2139 3084 1133] that writers "had best go into

business sooner than later," Feng Jicai says that it is absolutely preposterous to advocate that writers should go into business.

Feng Jicai notes that mainland Chinese writers' current missions should be to: 1. Stand fast to the position of pure literature, for which literature and art legislation is essential, and creative freedom must be guaranteed by law, and on which he spoke at the current CPPCC session; 2. Ensure that the state has corresponding policies to protect higher culture, which is most likely to be abandoned under attack by material demands; 3. Extend education in cultural and aesthetic awareness to young people.

Feng Jicai believes that the "leftist" atmosphere in current mainland Chinese literary circles must not be underestimated. He says that the present literary and art criticism is abnormal, in that it is often driven by politics. And he points out that China is a land of "little imagination and many incidents," in that the calendar shows an incident about every 10 days, in most cases being a tragedy. He goes on to say that: Once literary and art criticism in particular turns into political criticism, it is always a major incident. "With such incidents coming one after another, where does this leave writers any room for imagination?" The current major problem is that certain leaders in literary and art circles are under the control of the ultra-leftists who, while few in number, occupy responsible positions and exploit their authority to make trouble, which creates incidents. Wang Meng's *Hard Thin Gruel* was essentially not a work that the Central Government had to criticize, but rather one that certain literary and art VIPs made a fuss about to give expression to their "sense of control." "The optimum form of much individual purpose that can be achieved in mainland China is the use of leftist' methods." Feng Jicai can be said to have drawn blood with this remark.

"Unless writers are allowed independence of thought, it is hard for any bold and profound works to appear. While it is of course impossible for many excellent works to appear in every historical age, it is not normal that not even one excellent work reflecting profound reality has appeared for so many years." At this point, Feng Jicai expresses even more disgust with the "Mao Zedong craze" in literary circles, remarking that it reflects ignorance and a lack of culture. He warns against some who will try to take advantage of the "centennial" of Mao Zedong's birth in 1993 to launch another ultra-leftist "two all-who's" campaign. Feng Jicai says that: The current situation in mainland China is one of "action leading the way and thought lagging." This means that all those in theoretical, literary, and art circles should be urged to think conscientiously about history, instead of following this or that craze at the will of certain VIPs or "rectifiers." For instance, the "cultural revolution" is still verboten, so that no one dares to use this extremely significant historical event as teaching material for our youth.

As to the current NPC and CPPCC sessions, Feng Jicai hopes for simply a little expediting in the area of literary and art legislation and reform, such as the deregulation of author's remuneration. But he acknowledges that it is very hard to immediately change the status quo with a few meetings or speeches.

Zhang Xianliang: The Less the Government Speaks of Literature and Art, the More Possibility of Wider Literary and Artistic Development

As mainland China's "Western China writer," Zhang Xianliang [1728 6343 0081] is also a member of the current CPPCC, who told this reporter in an interview that mainland China's current creative climate is more relaxed. He believes that this is due primarily to the thought trends and degree of maturity of the public, particularly readers. He notes the following three development features:

In the past, it was always that the critics were forever right, while the criticized were eternally wrong. Development changed this to the critics continuing to be right, which certainly did not make the criticized publicly unlucky, but rather more popular the more they were criticized. And still further development changed this again to the critics remaining right but becoming increasingly disgraceful, while the criticized were not only right and famous, but also elevated in status to "united front targets."

Zhang Xianliang emphasizes the enhanced public awareness of democracy, noting that it will naturally have an impact on the social system and political operations, bringing a change from unconcern about politics to a closing of ranks behind it.

As to the current NPC and CPPCC sessions, Zhang Xianliang thinks that they will not have much of an impact on literary circles. He says that this is quite normal, as he has been a CPPCC member for 11 years, hearing many complain year after year at such meetings about the government's lack of concern for or attention to literature and art. "This is the product of a planned economy," Zhang Xianliang remarks that the less the government talks about or pays attention to literature and art the better, as this provides wider possibilities for literary and artistic development.

But Zhang Xianliang agrees with the need for literature and art legislation, so that the policy of letting a hundred schools of thought is defined in legal terms instead of being simply a slogan, and that writers are given a legislated climate of creative freedom. Meanwhile, he also notes the need to reform the author's remuneration system, in order to close it up with the market economy. As to the China Writers Association, Zhang Xianliang comments that "I'll mind my business if it minds its." But he notes that it is in urgent need of a change of officials and doing a good job of uniting with writers, which are precisely what certain of its officials most fear.

Zhang Kangkang: The "CPPCC" 's Greatest Role Is To Oppose Liberalization

Ms. Zhang Kangkang [1728 2123 2123] (Zhang Resist-resist) believes that since the "4 June incident" in 1989, the young and middle-aged writers who are the key force in mainland Chinese literary circles can be divided roughly into the following three "literary schools:" 1. A large number have become "neo-historical novelists." This certainly does not mean that they are conscientiously writing certain historical stories, but rather that they are placing their plots in very obscure past historical settings to expose certain facets of human nature, which gives them greater cultural significance; 2. The "cynical realists," who believe that there is nothing in the world worth treating seriously, so adopt an aloof approach of freezing irony and burning satire, reflecting social helplessness and individual ennui, and exposing the world's absurdities; 3. The "neo-realists," who describe the lives of the common people without using modern methods or critically revealing the true colors of past life.

Zhang Kangkang notes that: While these are all branches of "post-modernism," with the common feature of evading reality, the majority of people in mainland Chinese society can accept such things. Moreover, while it is not necessary for literature to be "shockingly" realistic at all times, this state cannot continue for long without making it difficult to speak of any healthy development trends for Chinese literature. This is the outcome of particular political pressure, which leaves writers with a rigid awareness, and causes character and spirits to wither. Zhang Kangkang says that many young writers use cynicism as passive resistance, "which is invariably better than no resistance at all." She says that while human existence naturally means that some things will go against one's will, such things ought to be known and clarified.

As to herself, Zhang Kangkang says that while she is not against others "going into business" and writing whatever they please, she is not ready to "jump into the sea of business" herself, as she has many things that she wants to write about, particularly her personal experiences and observations of life. "I believe that China has really enriched centuries of history." She is currently more concerned about mainland China's literature and art reform, hoping that it will be placed on the pertinent central legislative agendas after the current "NPC." She also says that the imprisonment of her husband, Lu Jiamin [0712 0857 3046], after the "4 June incident" in 1989 brought an end to her nomination by the Heilongjiang Writers Association as a delegate to the CPPCC. As to the CPPCC, Zhang Kangkang says that it seems that its current leadership will not be able to do anything about literature and art reform, as its greatest role is to oppose liberalization.

Cong Weixi: While Deng Xiaoping Has Talked About the Need To Curb "Leftists," Things Have Not Changed in Mainland Chinese Literary Circles

The famous mainland Chinese author Cong Weixi [1783 4850 3556] said in an interview with this reporter that serious writers will certainly not stop writing due to the impact of the current wave of business in mainland China, and that realism will remain the mainstream in mainland Chinese literary creation. He also reveals that the attacks on him by certain "leftist scoundrels" in mainland Chinese literary circles are nothing but "trumped up charges out to get him."

In the four-plus decades since the founding of the PRC, politics has remained dominant over literature, with some people having "wormed their way into" the ranks of writers through the "armpit" of political currents, passing themselves off as writers due to the "political nature" of their works. Cong Weixi says that: Literature in a market economy and general business climate needs truthful material content, which will "swamp" first those who have "wormed their way into" literary circles. As they have departed too far from the common people, they will naturally be dropped, which is a positive aspect that a market economy is bringing to the mainland Chinese literary world.

As to the future direction of the mainland Chinese literary mainstream, Cong Weixi says that: While literary schools are now proliferating in mainland China, realism will be a powerful shock to Chinese society and its vast numbers of readers, so is in urgent need of being published. Moreover, as all of the various literary schools in mainland China are breastfeeding from the mother-stream of "realism," this mainstream will not dry up, but will remain the "mainsail" of the future mainland Chinese literary ship.

When the conversation turns to the "leftist scoundrels" in mainland Chinese literary circles, Cong Weixi reveals that: As he accepted the invitation of the Taiwan publication LIENHO PAO to a literary conference in the Huayuan Hotel in Guangzhou, for which he wrote an essay entitled "In Memory of the White Swan," then Acting Minister of Culture He Jingzhi [6320 2417 0037] made a special investigation visit to his home, criticizing him for such fanciful trash, and telling him that he had "better not dare to go to such a sinister conference at the Huayuan Hotel in special memory of the White Swan Hotel, or actively participate in such a cultural attack against mainland China." Cong Weixi says that: "While Deng Xiaoping has talked about curbing the 'leftists', which would have real specific content in mainland Chinese literary circles, things have certainly not changed. That there are no genuine writers in the China Writers Association is proof of this."

Wu Zuguang: Our Creative Freedom Is Restricted

The famous Chinese playwright Wu Zuguang [0702 4371 0342] has been a delegate to the CPPCC four consecutive times as a representative of the literary and art world. When discussing literature and art reform, he says that: The practice of a market economy in mainland China has close ties to literary and artistic developments. Writers' creativity is gradually becoming more market-oriented, with works becoming more interesting and entertaining in style, and having less of a political flavor.

Wu Zuguang notes that: The current creative climate is more liberal, being even more relaxed than that before the "4 June incident" in 1989. In the last two years, no one has interfered with my creation, speech, or actions. Creation and publication by ordinary writers is also more widespread, with works no longer having to be examined level by level, but being allowed to be published by commercial publishers as long as they are marketable.

But creative freedom is restricted. Wu Zuguang says he believes that the reason why officials have interfered less in the publication of works recently is that writers are selecting less sensitive subjects, and that no good essayists who are making it their mission to point out errors and offer advice are emerging.

Under the general impact of a market economy, literary and art organizations are reforming, so that writers and artists have to take care of themselves. Wu Zuguang says that: While some in literary and art circles cannot adapt to this change, I believe that the principle of excellence through competition will give free rein to the talented. But making writers support themselves completely on their own earnings will take time, certainly not being something that can be achieved immediately.

Wu Zuguang notes that while a market economy may have a certain negative impact on pure artistic creativity and appreciation, the public will be able to recognize good works when it sees them. He gives the following examples: In the Rodin art show that just ended on 15 March, for which the French brought genuine Rodin sculptures from Paris, while the Chinese did not publicize the show because of the recent deterioration of Sino-French relations (over the sale of Mirage fighters to Taiwan), it was well-attended anyhow. And as to Chinese theatre, the Beijing People's Art Theatre always plays to a full house. These show that the fine arts still have a market in China.

Wu Zuguang says that literature and art reform means that no one will ever again propose "making literature and art a tool for indoctrinating the masses." He remarks that: While the taste for serious or popular works differs according to the person, I never thought that I could write a "great work" anyhow. But what harm is there in writing works with lighter contents to make readers feel happy and relaxed?

Article Views Service Sector Investment in China

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[ECONOMIC REPORTER] in Chinese
No 18, 10 May 93 pp 18-20

[Article by staff reporter Yao Kan-nan: "Taiwan's Service Sector Investment: From Longings to Actions—An Interview With Mr. Kao Ch'ang, Researcher at the Institute of Chinese Economics of Taiwan"]

[Text] This was the ninth time that Dr. Kao Ch'ang had visited Beijing.

In late April, the weather in Beijing was changeable, with greatly fluctuating temperatures. Sometimes, the wind carrying dirt would make people very uncomfortable. But, all this did not affect Mr. Kao's mood. He remained in high spirits when attending the Third Symposium on the Tertiary Industries of the Two Sides of the Strait. This reporter interviewed him during the symposium.

Mr. Kao Ch'ang is a researcher at, and concurrently deputy director of the first (mainland economy) section of, the Institute of Chinese Economics of Taiwan, and also an associate professor at the Economics Institute of the Chengchi University of Taiwan. Since 1980 and after he obtained his Ph.D degree in economics in the United States, he has been concentrating on studying the mainland economy, and produced a series of high-quality academic works. In mid-May last year, Mr. Kao Ch'ang accompanied Chao Yao-tung, former "Minister of Economic Affairs" of Taiwan, and Yu Tsung-hsien, president of the Institute of Chinese Economics of Taiwan, on a trip to Beijing where he delivered a speech on a "Greater-China economic sphere." His works—"The Degree of Interdependence between the Economies of the Two Sides of the Strait," "A Feasibility Analysis of Taiwan's Service-Sector Indirect Investment on the Mainland," and "A Survey of the Taiwanese Manufacturing Sector's Investment on the Mainland"—have had significant influence both at home and abroad.

When the reporter touched upon the subject of Taiwan's tertiary-industry investment on the mainland, Mr. Kao gladly expressed his views:

According to him, in the recent years, with the relaxation of the hostile political relations between the two sides of the strait, Taiwanese investment on the mainland has been growing. In this regard, the labor-intensive manufacturing sector has taken the lead. Last year, the mainland proposed to accelerate the development of the tertiary industry. And, Taiwan's service sector has moved from longing to taking actions, beginning to gather funds to be invested on the mainland. The thinking here is mainly based on a recognition of the fact that the service industries on the mainland are underdeveloped, and that a large market remains to be developed. If so, how should the two sides of the strait carry out cooperation regarding the tertiary industry? How

much room is there for Taiwanese investment in the tertiary industry of the mainland? All these are questions worth discussing.

The share of the tertiary industry in the gross national product of the mainland was 27.2 percent in 1991, but only 20.6 percent in 1980, said Mr. Kao while showing a table. The share of the tertiary industry in the total number of people employed was 18.9 percent in 1991, but only 13 percent in 1980, he said. This shows that the tertiary industry of the mainland has achieved significant development over the past ten-plus years.

But, he also said, compared with countries around the world, the mainland's tertiary industry represents a rather small share of the national economy, is inadequate to meeting the needs of the development of the national economy and the people's lives, and therefore should be developed in an accelerated manner.

According to Mr. Kao, it is very wise for the mainland authorities to emphasize the need to introduce foreign capital and advanced management techniques in the process of developing the tertiary industry. As this is the first time that the mainland has allowed foreign firms to invest in its tertiary industry, there is a large room for development. In addition, the situation of the tertiary industry has close relations to the development of the market based on the domestic needs of the mainland. Thus, as soon as the new policy had been announced, there were enthusiastic responses from foreign firms. In this regard, the real estate and retail trade sectors are the two sectors that foreign firms are the most enthusiastic about. Foreign firms are also interested in the tourism, restaurant, information and consulting businesses.

Taiwanese firms have always been having high expectations with regard to the market based on domestic needs on the mainland. Business people widely believe that the mainland's allowing foreign firms to invest in the tertiary industry "is a rare opportunity." This fact may have been the main underlying reason for the rapid growth of Taiwanese investment on the mainland last year.

The Causes of the Backwardness of the Tertiary Industry of the Mainland.

Although Taiwan would call the tertiary industry "service sector" because of its habit, the ways of categorizing are basically the same in terms of the overall schemes, said Mr. Kao when discussing the ways of categorizing used by the mainland and Taiwan with regard to such concepts as primary, secondary and tertiary industries. In his view, Taiwan's service sector firms have a good understanding of the tertiary industry of the mainland, and some firms have taken the lead in investing on the mainland. A large department store is now under construction in Shanghai, and negotiations on another large commerce company in Wuhan are going on.

In his view, the gaps between the tertiary industries of the mainland and Taiwan are mainly in the following aspects:

First, service is poor in the tertiary industry of the mainland, as is known to all; the "software" is not up to standard. Second, tertiary industry equipment on the mainland are out-dated and some are not available. Third, the quality of tertiary industry personnel of the mainland is low. This is related to the levels of development of the economy and education of the society as a whole. The financial sector appears to be in an especially backward state. For a long time, the financial sector served only as the cashier of the government, and was not regarded as a sector providing services. The problem here concerns defects of the system.

What are the causes of the backwardness of the tertiary industry of the mainland? Mr. Kao was in agreement with mainland scholars on this issue, and, in summing up, pointed out the following several problems:

The most important factor have been defective thinking and theorizing. For a long time, because of the impact of the idea of product economy, the mainland gave emphasis to only production but not circulation and services, regarding the tertiary industry as a nonproductive sector which did not create wealth for society, and denying the commercial value of services provided by the tertiary industry. Under the guidance of such thinking, there was a lack of policy support for the development of the tertiary industry, resulting in the underdevelopment of some businesses. Some businesses were even suppressed for a long time, because of being viewed as not conducive to the development of socialist economy.

Second, the mainland has long been using a "free supply" system in providing social welfare benefits. Some industries are considered welfare projects and dependent on government subsidies, and thus lack internal drive for self-development, resulting in the gradual withering of those industries. Enterprises and public institutions would usually provide many welfare benefits, and distribute to employees various subsidies and goods. This method has not only reduced the market for the tertiary industry but also constrained the tertiary industry in its movement toward commercialization and specialization, thus resulting in smaller returns to scale in the tertiary-industry businesses across society.

Furthermore, the defective management system is also an important factor obstructing the development of the tertiary industry. Under the traditional system of planned economy, the circulation of means of production and ordinary consumer goods was governed by a system of unified allocation and distribution, which was not conducive to the development of commerce. Fiscal and financial matters were governed by a system of unified revenue and expenditure arrangements, which constrained the development of the finance and insurance industries. Enterprises had to follow plans in their

operations and had no autonomy. As a result, businesses providing some ordinary industrial and commercial services such as technical service and management consulting could not exist at all.

A Large Room for Development

The library of the Institute of Chinese Economics of Taiwan subscribes to 80 mainland newspapers and over 200 mainland journals, and has a large supply of data on countries around the world as well as Taiwan itself. After carrying out careful study, in addition to conducting on-the-spot investigations, Dr. Kao Ch'ang has come to a conclusion: In terms of market demand, on the mainland the various service industries of Taiwan will all have substantial room for development.

Various firms engaged in a number of service businesses respectively have already entered the mainland market by finding agents on the mainland, he said. For instance, firms engaged in the food processing business have already found agents on the mainland, and will sell their products to the mainland in an indirect way. Firms engaged in other businesses such as that of operating fashion stores have also begun retail operations on the mainland by leasing counters in state-owned department stores. According to a survey conducted by the LIENHE PAO group, among the firms which are engaged in service sector businesses and which have invested on the mainland, many are engaged in information service businesses. Beijing, Shanghai and Shenzhen are the three most ideal investment places in the eyes of the firms. Firms engaged in wholesale and retail businesses involving department stores as well as clothing and fashion stores are, in groups, also actively trying to establish bases on the mainland in cooperation with the relevant manufacturing firms. In places such as Shanghai, Guangzhou, Shenzhen and Tianjin where the economy is rather open, people in general have a lot of money to spend, and therefore Taiwanese firms are the most interested in investing in those places.

The mainland has a huge population and a large area. The gradual development of the economy will inevitably increase the demand for service businesses, and there is a large potential market to be developed. Firms engaged in real estate, restaurant, and general-merchandise wholesale businesses are optimistic about the long-term prospects of investment on the mainland. The main reason here is the attraction of a market based on the domestic needs of a country of 1.2 billion people. Firms engaged in import-export trade and shipping businesses are also interested in investing on the mainland; the reason here is the expectations regarding the needs for services involving foreign economic contacts and trade to be generated by the internationalization of the mainland economy.

However, in terms of competitiveness and feasibility, it remains difficult for firms engaged in some businesses,

especially those providing services for producers, to display their development potentials, said he after changing the subject.

Firms engaged in distribution-related service businesses—including mainly retail, wholesale, international trade, transport, storage and communications businesses—should have had a large room for development, but, in reality, have to use the form of joint ventures in investing on the mainland, because of regulations. The existing state-owned enterprises enjoy an advantage in terms of marketing channels, and thus they will become good partners of foreign firms, but will also be strong competitors on the domestic market. In selecting partners of cooperation while making investment on the mainland, Taiwanese firms have to be careful.

In addition, the industries which provide services for consumers—mainly restaurant, entertainment and individual service industries—also present great potential markets, as the income levels and the quality of life demanded are getting ever higher; investment in those industries are worthwhile. But, as the mainland is a large country, and as the needs of the consumers of different regions are different, investors must do a good job of conducting market investigation and planning.

The businesses providing services for producers—such as enterprise consulting, information service, leasing, finance, insurance, accounting, and brokerage businesses—also present development potentials, but the room for development in those businesses is limited for now. The main obstacles come from the government's policy measures and the unsuitable objective environment.

Many Constraining Factors Remain

The reporter asked: What problems will Taiwanese firms encounter in investing in the tertiary industry of the mainland? How do you view the investment environment on the mainland? Which existing policies of the mainland remain inappropriate in terms of the needs of the investors?

Taiwan's service sector firms, Mr. Kao said in his answer, have a strong interest in the mainland market, but still have a lot of complaints about the investment

environment on the mainland. According to the data based on a survey conducted by Taiwan's KUNSHANG JIHPAO last year, about one-fifth of the firms surveyed were unhappy about the underdeveloped state of laws and regulations, the ever-changing policies, and the resultant difficulties in coping with the situation. Furthermore, government agencies are too bureaucratic; it is difficult to obtain information; it is difficult to remit funds from the mainland; the infrastructure is underdeveloped; the quality of personnel is not high enough; it is difficult to find partners of cooperation—these are all problems that the firms believe to be likely to occur. As the business operators are not totally satisfied with the investment environment of the mainland, they will certainly adopt a cautious, conservative approach to investing on the mainland. Another question is that the localities on the mainland tend to use different tax systems and laws, and that the phenomenon of administrative intervention is widespread. Consequently, in investing on the mainland, the firms have to deal with many variables. This increases the uncertainty in business operations. Such obstacles to investment are in the category of defects of the investment environment, and are difficult to eliminate in a short time. At present, the restrictions on foreign investment in the tertiary industry of the mainland have not all been lifted. Meanwhile, foreign firms can carry out investment only by forming joint ventures; and foreign firms are basically not allowed to engage in wholesale business, not even in the form of forming joint ventures. Although foreign firms are allowed to invest in the business of retail sales of general merchandize, but they are not allowed to invest in retail stores of a chain-store nature. The purpose of this regulation of the mainland is doubtless to maintain the state-owned enterprises' control, or even to keep foreign firms from dominating the market. Apparently, the mainland is still taking some precautions, while allowing foreign firms to invest in the tertiary industry.

Those constraining factors are unhelpful to the efforts of Taiwanese firms to invest on the mainland and should arouse great attention, thereby leading to improvement. Only in this way would it be possible to attract more investors, said Mr. Kao near the end.

CPC-Controlled Organizations Listed, Described

93CM0333A Taipei CHUNGKUO TALU YENCHIU
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[Article by Chang Hu, associate researcher at the center:
"The CPC's Organizational Work in Hong Kong"]

**[Excerpt] [passage omitted] IV. The CPC Institutions
Currently in Charge of the Work on Hong Kong**

Currently, there are three CPC institutions in charge of the work on Hong Kong. One is the "Hong Kong and Macao Affairs Office of the State Council" of the CPC Government, which was established in 1978. In the early phase, in order to prevent Britain and Hong Kong from becoming sensitive, this body was made a secret rather than an openly functioning agency. Most of its members had worked in the Hong Kong and Macao section of the Foreign Affairs Office of the "State Council" of the CPC Government before the "Cultural Revolution." The director of the office was Liao Ch'eng-chih who had long been in charge of the CPC's work on overseas Chinese and on Hong Kong and Macao (after his death in 1983, he was succeeded by Chi P'eng-fei, a State Councilor of the CPC Government), the deputy director was Li Hou (previously an official of the propaganda section of the Foreign Affairs Office), and the secretary was Lu P'ing (who has now been promoted to the position of director of the Hong Kong and Macao Affairs Office).

The second CPC institution in charge of the work on Hong Kong is the "Hong Kong and Macao Affairs Office" under the "Foreign Ministry" of the CPC Government, and is specifically in charge of the international aspect of the Hong Kong and Macao affairs. The third institution in charge of the work on Hong Kong is the Hong Kong Branch of the "Hsinhua News Agency" in Hong Kong. In fact, the Hong Kong Branch of the "Hsinhua News Agency" is the front of the "CPC Hong Kong and Macao Work Committee." The following is a brief description of the organizational framework of the "CPC Hong Kong and Macao Work Committee":

- (1) Secretary: equivalent to the undeclared ambassador of the CPC Government to Hong Kong and Macao, publicly assuming the position of director of the Hong Kong Branch of the "Hsinhua News Agency."
- (2) Six deputy secretaries: publicly assuming the positions of deputy directors of the Hong Kong Branch of the "Hsinhua News Agency." In addition, there are also three assistant secretaries.
- (3) Standing committee members and committee members: The standing committee is composed of 10 members including the secretary and deputy secretaries. Among the committee members are officials in charge of the CPC Government-owned enterprises in Hong Kong such as the "Bank of China" and the "China Merchants Steam Navigation Company."

- (4) Secretary-general and deputy secretary-general: The positions were set up by Hsu Chia-t'un in 1980 after he came to Hong Kong; these officials assist the secretary in handling important matters involving external relations.
- (5) Director of the general office: handling routine matters.
- (6) The policy research office: responsible for analyzing and studying information and making policy proposals.
- (7) The organization department: handling matters involving the party organization.
- (8) The propaganda department: in charge of the propaganda work in Hong Kong and Macao and overseas propaganda.
- (9) The united front department: in charge of the united front work directed at business people.
- (10) The cultural office: specifically in charge of the united front work directed at such cultural circles as the motion picture, television and sports circles.
- (11) The overseas Chinese office: responsible for conducting, in Hong Kong, united front work directed at overseas Chinese.
- (12) The Taiwan affairs task force: specifically in charge of the work of infiltrating, and gathering information on, Taiwan.
- (13) The overseas work task force: specifically in charge of infiltrating, and gathering information on, Southeast Asia.
- (14) The foreign affairs office: in charge of the foreign affairs work involving Hong Kong, Britain, and other foreign countries' representative institutions in Hong Kong.
- (15) The information office: in charge of the public part of the work of studying Hong Kong, Macao, and Taiwan.
- (16) The investigation office: an intelligence organization which is a unit of the CPC Central Investigation Department.
- (17) The security office: a unit of the "Public Security Ministry" of the CPC Government, which is in charge of ensuring the security of the entire institution and collecting intelligence from outside the institution.
- (18) The Macao Branch of the Work Committee: in charge of all work in Macao.
- (19) The Asia Corporation: responsible for taking care of the needs of officials holding the CPC Government's diplomatic passports and the needs of members of foreign Communist parties when they make

stopovers in Hong Kong, and responsible for buying goods for the personnel of the CPC Government's embassies and consulates around the world when they are in Hong Kong.

In addition, since Hsu Chia-t'un came to Hong Kong, two more positions have been set up, that is, those of the two "assistants to the director" of the Hong Kong Branch of the "Hsinhua News Agency." There are also "directors of the offices of the Hsinhua News Agency" in the various administrative districts in Hong Kong. Besides the "CPC Hong Kong and Macao Work Committee," there are also the CPC-controlled peripheral, functional organizations in Hong Kong which can be described as belonging to "seven fronts" and "three spheres":

The seven fronts in the CPC's work in Hong Kong and Macao are respectively: the "information front," the "publishing front," the "motion picture front," the "financial front," the "trade front," the "transportation front," and the "overseas Chinese front."

- (1) The information front: The main institutions are TA KUNG PAO, WEN WEI PO, HSIN WAN PAO, CHOU MO PAO, SHANG PAO, CHING PAO, CHENG WU PAO, HONG-KONG YAT-PAO, TIEN-FENG JIH-PAO, HSIN NIEN PAO, the English edition of TA KUNG PAO, the monthly TUNG FANG, and the Hong Kong Branch of the "China News Agency," etc.
- (2) The publishing front: The main institutions are the Joint Book Company, New Democracy Book Company, China Bookstore, Commercial Press, Student Book Company, Hsinfeng House, monthly CHING-NIEN CHIH-SHIH, etc.
- (3) The motion picture front: The main institutions are the Nanfang Film Corporation, Great Wall Corporation, Phoenix Corporation, Hsinlien Corporation, Clear Water Bay Studio, and Hsinking, Po Hing, Nanyang, Nanhua, Yintu, and Chuchiang Theaters. In addition, the Yintu Entertainment Company and Fengnien Entertainment Company are also the CPC's peripheral organizations.
- (4) The financial front: The main institutions are the Bank of China, Nanyang Commercial Bank, Kwangtung Provincial Bank, Sin Hua Bank, Bank of Communications, Ka Wah Bank, Po Sang Bank, China and South Sea Bank, Yien Yeh Commercial Bank, Kincheng Bank, Chekiang Enterprise Bank, Chiyou Bank, Hua Chiao Commercial Bank, Min An Insurance, China Insurance, Pacific Insurance, Tiench'u SMG Plant, Nanyang Brothers Tobacco Company, CHING-CHI TAO-PAO, etc.
- (5) The trade front: The main institutions are the Huajun Corporation, Tungfang Oil Company, Wu Feng Hong, Te Hsin Hong, Huayuan Company, Chung Fu Hong, Huamao Company, Anta Company, Yuanta Company, Chungfa Company, China

Resources Company, Huafeng Resources Company, and Tahua Resources Company. The trade representative offices of the provinces and municipalities such as Szuchuan Province's representative institution, Chialing Corporation, are managed by the provinces themselves.

- (6) The transportation front: The main institutions are the Hong Kong Merchants Steam Navigation Company, Chuchiang Shipping Company, Yuanyang Shipping Company, Yiu Lian Dockyards, Haitung Merchandize Company of the Merchants Steam Navigation Company group, etc.
- (7) The overseas Chinese front: The main institutions are the China Travel Service, Golden Gate Hotel, and others, while the Miramar Hotel is a peripheral organization.

The CPC's work in Hong Kong also encompasses the so-called "three spheres," that is, the "trade union sphere," the "school sphere," and the "New Territories sphere."

- (1) The trade union sphere: The "upper line" trade unions, that is, the openly functioning trade union organizations. The Hong Kong and Kowloon Association of Trade Unions is the headquarters, and the main trade unions are those of the motorbike industry, China Motor Bus, Kowloon Motor Bus, trolley-bus workers, overseas trade workers, textile workers, seamen, China Light & Power, Kowloon Light & Power, Tatung Telegraph, gasworks workers, Butterfield & Swire Shipyard, Whampoa Shipyard, restaurant workers, retail trade workers, horse racing workers, employees at large, etc. In addition, the "Citizens' Sports Association" is also a trade union under the "upper line" leadership.
- (2) The school sphere: The main CPC-controlled schools are Peichiao Middle School, Hsiangtao Middle School, Chunghua Middle School, Hsinchiao Middle School, Chunghua Technical School, Hanhua Middle School, Wenlin Academy, etc. The Hong Kong and Kowloon School for Workers' Children and all its campuses are under the "upper line" trade unions' leadership.
- (3) The New Territories sphere: The main institutions are the General Association of Farm Workers of the New Territories, the General Association of Flower Workers, and the CPC-controlled fishermen's organization. The main tasks of those organizations are, besides combatting the pro-Taiwan organizations and individuals, to serve as a base for the work of collecting information in Britain.

In addition to institutions belonging to the "seven fronts" and "three spheres," the CPC directly controls such social organizations in Hong Kong as the Chinese Association of Trade Unions, Chinese Export and Import Business Association, North and South Business Association, Chinese Reform Society, Association of

Chinese Bank Employees, etc. In Macao, the CPC controls such institutions and organizations as the Macao Branch of the "Hsinhua News Agency," Nankuang Trading Company, Bank of China (formerly Nantung Bank), Haochiang Middle School, Chinese Chamber of Commerce of Macao.

V. The Status of the "CPC Hong Kong and Macao Work Committee"

The "CPC Hong Kong and Macao Work Committee" (assuming the name of the Hong Kong Branch of the "Hsinhua News Agency" in public) had been under the supervision of the CPC Kuangtung Provincial Committee before the Hong Kong and Macao Affairs Office of the "State Council" was established in May 1985. Afterwards, Liao Ch'eng-chih became director of the Hong Kong and Macao Affairs Office, and Wang K'uang [3769 0562], formerly director of the Publishing Bureau of the "State Council" of the CPC Government, became the secretary of the "Hong Kong and Macao Affairs Office." As Wang K'uang had been given the ministerial rank before being transferred to Hong Kong, the "CPC Hong Kong and Macao Work Committee" also became a ministerial-level agency, and would hence no longer be under the supervision of the CPC Kuangtung Provincial Committee. After Hsu Chia-t'un came to Hong Kong in 1983, the "CPC Hong Kong and Macao Work Committee" became an agency of an even higher level because of Hsu Chia-t'un's personal status. However, as Hsu Chia-t'un was replaced by Chou Nan, a deputy "foreign minister" of the CPC Government, after the 4 June incident, the CPC authorities seemed to have intentionally made the "CPC Hong Kong and Macao Work Committee" an agency of a lower level. In short, although it seems that the status of the "CPC Hong Kong and Macao Work Committee" changes with the change in personnel and over the years, the committee is very different in nature from the CPC's provincial-level local organizations.

First, the biggest difference between the "CPC Hong Kong and Macao Work Committee" and a provincial organization of the CPC is that at least as a matter of formality a provincial committee of the CPC is elected by a congress of representatives of the party members province-wide, but that the members of the "CPC Hong Kong and Macao Work Committee" are selected and appointed by the CPC Central Committee and the State Council of the CPC Government. Furthermore, in the late 1980s, and especially since Hsu Chia-t'un came to Hong Kong, most of the cadres of the "CPC Hong Kong and Macao Work Committee" have been selected by Hsu Chia-t'un and transferred to Hong Kong from Chiangsu, Chechiang or Peiping. Of the six deputy directors of the Hong Kong Branch of the "Hsinhua News Agency," only one, i.e., Mao Chun-nien, is a Hong Kong native; the other five have all been transferred to Hong Kong from the mainland. Although there have been some personnel changes after Chou Nan replaced Hsu Chia-t'un, the share of people who are not Hong Kong natives in the personnel of the CPC's institutions in Hong Kong remains very large. It is no wonder that the people of Hong Kong would call the CPC's

personnel in Hong Kong "uncles." The shares of cadres who are "natives" and cadres who are not "natives" in a provincial committee of the CPC on the mainland are largely equal, but the "CPC Hong Kong and Macao Work Committee" is very different in this respect. This also clearly shows the special missions of the "CPC Hong Kong and Macao Work Committee."

Second, on the mainland, all the organizations of the CPC are legal, openly functioning organizations, but the "CPC Hong Kong and Macao Work Committee" is a secret, illegal organization in Hong Kong. The reason has been the British Hong Kong Government's fear that the establishment of an organization of the CPC in Hong Kong can lead to a situation of "two power centers," and that such a situation can threaten its fundamental interests in relation to the governing of Hong Kong. On the other hand, the British Hong Kong Government would welcome the establishment by the CPC Government's "Foreign Ministry" of consular institutions in Hong Kong. The CPC considers Hong Kong a part of the territory of China, and believes that because of its sovereignty over Hong Kong, it is naturally entitled to establish party organizations in Hong Kong. But, as the establishment of a consulate would be tantamount to renouncing the sovereignty over Hong Kong, the CPC is resolutely opposed to that idea. No question of "sovereignty" is involved in the existence of the organizations of the CPC on the mainland, but the legalization of the "CPC Hong Kong and Macao Work Committee" would involve the question of "sovereignty."

Third, with regard to autonomy, the CPC's provincial-level organizations on the mainland certainly have greater autonomy, while the "CPC Hong Kong and Macao Work Committee" has to follow Peiping's instructions in almost all its activities since Hsu Chia-t'un's departure.

Because the "CPC Hong Kong and Macao Work Committee" exists in a special environment and has special missions, one wonders whether it is a unit under the direct supervision of the CPC Central Committee or a local organization. As discussed above, the status of the "CPC Hong Kong and Macao Work Committee" seems to change as personnel changes occur, as time passes, and as there is change in the geographical element. In the Liao Ch'eng-chih era, the personal status of Liao resulted in the prominence of the character of the "CPC Hong Kong and Macao Work Committee" as a unit under the direct central supervision. In the following periods, as both Wang K'uang and Hsu Chia-t'un were ministerial-level cadres of the CPC, the "CPC Hong Kong and Macao Work Committee" was considered a ministerial-level unit under the direct supervision of the CPC Central Committee, both in form and in substance, and was regarded as a unit above the provincial level. Since Chou Nan, who has a much lower status than Hsu Chia-t'un, came to Hong Kong and replaced Hsu, the status of the "CPC Hong Kong and Macao Work Committee" seems to be in a process of being lowered.

In appearance, the "CPC Hong Kong and Macao Work Committee," or the Hong Kong Branch of the "Hsinhua News Agency," looks like a provincial-level local ruling institution in terms of position in the bureaucracy, but it should be considered a unit directly under the "State Council" of the CPC Government and the CPC Central Committee in terms of the CPC's political system. In terms of decision-making channels, it is under the foreign affairs task force of the CPC Central Committee, and is not related to the Hong Kong and Macao Affairs Office of the "State Council" of the CPC Government. This situation is similar to the relation between the "Foreign Ministry" and the Foreign Affairs Office of the "State Council" of the CPC Government which are not subordinate to each other. However, in carrying out the work on Hong Kong, the "CPC Hong Kong and Macao Work Committee," or the Hong Kong Branch of the "Hsinhua News Agency," maintains close relations of cooperation and coordination with the Hong Kong and Macao Affairs Office of the "State Council." For instance, in order to coordinate the implementation by various institutions of the policies on Hong Kong and Macao, it has been necessary to strengthen the relations of cooperation and coordination between the "Hong Kong and Macao Affairs Office" and the "CPC Hong Kong and Macao Work Committee." The fact that Jung K'ang, formerly director of the second department of the "Hong Kong and Macao Affairs Office," came to Hong Kong and became councilor of the Hong Kong Branch of the "Hsinhua News Agency" was probably the result of such coordination and cooperation efforts.

VI. The CPC's Control Over the Institutions That It Has Set Up in Hong Kong

There are mainly two categories of institutions that the CPC has set up in Hong Kong in terms of forms. In the first category are institutions similar to the CPC's local institutions on the mainland. These Hong Kong-based institutions, after registering themselves with the Hong Kong Government, have become legal entities under the law of Hong Kong. In the second category are the institutions set up by the central-level agencies and provinces and municipalities of the CPC-controlled area. They all have their respective supervisory agencies on the mainland, and the ownership rights over those institutions are exercised by agencies on the mainland instead of in Hong Kong.

The institutions in the second category can be further divided into two categories. In the first category are institutions over which ownership rights and management rights are exercised by their supervisory central-level agencies of the CPC Government. But, as they have operated in Hong Kong for a long time, they have become Hong Kong-based. They are no longer serving as representative offices of the central-level agencies of the CPC Government, but, rather, more like CPC's local institutions in Hong Kong. In this category are such institutions as the 13 "Chinese-owned banks" managed by the Hong Kong and Macao Office of the "Bank of China," the Merchants Steam Navigation Company

group under the "Communications Ministry," the "Huajun group" under the "Ministry of Foreign Economic Relations and Trade," the "China Travel Service" set up in Hong Kong by the Overseas Chinese Office of the "State Council" of the CPC Government in 1954 (the "China Travel group"), etc. Those institutions were established before the 1960s and can be called "traditional Chinese-owned institutions." In the second category are the missions, branches, joint ventures or cooperative enterprises set up by the central-level agencies of the CPC Government since the beginning of the 1970s. As they have a short history, they are still in the process of reorganization and development.

Under the CPC's local-level organizational system, a local committee of the CPC exercises overall leadership over the various local institutions and government agencies. Theoretically, the "CPC Hong Kong and Macao Work Committee" should also play such a leadership role. But, as the ways in which the "CPC Hong Kong and Macao Work Committee" functions and is controlled are not revealed to the public, outsiders do not know what role it really plays in Hong Kong and Macao. One can surmise that the "CPC Hong Kong and Macao Work Committee" may be responsible for supervising only the institutions in Hong Kong which have registered themselves with the Hong Kong Government, and may not have the authority to directly supervise the institutions set up in Hong Kong by the central-level agencies or provinces and municipalities of the CPC-controlled area. Nevertheless, despite that, the officials in charge of the institutions set up by the central-level agencies or provinces and municipalities of the CPC-controlled area are mostly members of the "CPC Hong Kong and Macao Work Committee" thus the "CPC Hong Kong and Macao Work Committee" does play the role of indirect leadership over, and have indirect influence on, those institutions. For instance, the "CPC Hong Kong and Macao Work Committee" has complete management rights over the Joint Publishing Company (result of a merger of such firms as the "Joint Book Company" and the Commercial Press), WEN WEI PO, TA KUNG PAO, HONG-KONG SHANG-PAO, and the Yintu Film Company, Ltd., which are under the supervision of the Hong Kong Branch of the "Hsinhua News Agency" as well as over a large number of leftist-controlled primary and secondary schools and enterprise groups under the Association of Trade Unions.

In line with the CPC's practices relating to party and government affairs, the "CPC Hong Kong and Macao Work Committee," in addition to having a standing committee serving as the leadership core, has also several "task forces," which—under the leadership of the various deputy directors of the Hong Kong Branch in charge of the various areas of work—are in charge of the various areas of work such as the work on Hong Kong, on Taiwan, and on overseas Chinese respectively. For instance, the "economic-affairs task force" is headed by the deputy director in charge of economic affairs. Presumably, the members of this task force would certainly

include those members representing the "Bank of China group," the "Merchants Steam Navigation Company group," the "Huajun group," and the "China Travel group" on the "CPC Hong Kong and Macao Work Committee." Take the example of the exercising of leadership on economic policy matters. The leadership and command system in this area of work must be structured approximately in the following way: Instructions go from the standing committee of the "CPC Hong Kong and Macao Work Committee" to the deputy director of the Hong Kong Branch of the "Hsinhua News Agency" in charge of economic affairs, then to the "economic-affairs task force," and then to the economics department (of the Hong Kong Branch of the "Hsinhua News Agency"). The detailed situations concerning the division of labor among the various "task forces" are part of the CPC's internal secrets, and are thus largely unknown.

Most of the cadres of the institutions set up by the CPC in Hong Kong are either CPC members or members of the Communist Youth League (CYL). The different

kinds of cadres sent to Hong Kong by the various agencies of the CPC Government are all put under the unified personnel management of the organization department of the "CPC Hong Kong and Macao Work Committee" in terms of both organizational links to the CPC or CYL and assignment of work. Those cadres will come under the supervision of the institutions with which they were previously affiliated on the mainland after returning to the mainland. As the activities of the CPC in Hong Kong and Macao are conducted in a highly secret manner, estimates of the number of CPC members in Hong Kong range from 2,000 to 11,000. In the recent years, as 1997 approaches, it is presumably true that the number of CPC members is, of course, growing in a significant manner. It is said that the CPC conducts recruitment in the following ways in Hong Kong: Generally, it will only recruit CPC members in the institutions, and will give equal emphases to recruiting CPC and CYL members in trade unions. In the schools under its control, it will recruit CYL members among students of senior middle schools, and CPC members among teachers and other employees. [passage omitted]

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